

STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY

JAY B. RISING
State Treasurer



Report on
Examination

COUNTY OF OTSEGO

December 31, 2004

Local Audit and Finance Division
Bureau of Local Government Services

OTSEGO COUNTY
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Diann Axford
Treasurer

James D. McBride
Sheriff

Kevin Hesselink
Prosecuting Attorney

Denise Koning
Appointed County Administrator

COUNTY POPULATION--2000
23,301

STATE EQUALIZED VALUATION--2004
\$1,461,185,482



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

July 29, 2005

County Board of Commissioners
Otsego County Courthouse
225 West Main Street
Gaylord, Michigan 49735

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Otsego County, Michigan, as of and for the year ended December 31, 2004, which collectively comprise the county's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Otsego County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Commission on Aging (special revenue fund type) which represents 1.80 percent and 6.62 percent, respectively, of the assets and revenues of the governmental funds. We did not audit the financial statements of the Road Commission (special revenue discretely presented component unit) which represents 78.12 percent and 63.54 percent, respectively, of the assets and revenues of the component units. These financial statements were audited by other auditors. Our opinion on these financial statements, insofar as it relates to the amounts included for the Commission on Aging and Road Commission, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Otsego, as of December 31, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued reports dated July 29, 2005, on our consideration of the County of Otsego's internal control over financial reporting and our tests of its

compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 1 through 12 and the Budgetary Comparisons for Major Funds in Exhibits L through O are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurements and the presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Otsego's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133; Audits of States, Local Governments, and Non-Profit Organizations; and is not a required part of the financial statements. The combining and individual nonmajor fund financial statements, Schedule 1 and Schedule 2, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining, individual nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors are fairly stated in all material respects in relation to the basic financial statements, taken as a whole. Application of State Block Grant Funds (Schedule 1 and 2) have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

OTSEGO COUNTY

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COUNTY OF OTSEGO

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the County of Otsego, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the accompanying basic financial statements.

Financial Highlights

- The assets of the County of Otsego exceeded its liabilities at the close of the most recent fiscal year by \$22,149,216 (*net assets*). Of this amount, \$5,525,433 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the County of Otsego's governmental funds reported combined ending fund balance of \$6,223,059.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County of Otsego's basic financial statements. These statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Otsego County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Otsego County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Otsego County is improving or deteriorating.

The *Statement of Activities* presents information showing how the Otsego County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. (e.g., uncollected taxes and earned but unused vacation leave)

COUNTY OF OTSEGO

MANAGEMENT'S DISCUSSION AND ANALYSIS

Both of the government-wide financial statements distinguish functions of Otsego County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). *Governmental activities* include legislative, judicial, general government, public safety, public works, health and welfare, community and economic development, recreation and culture, and other functions. *Business-type activities* include delinquent tax collections, public transit, global positioning system, metropolitan area network, plat books and the operation of an inmate commissary.

The county's governmental activities also include the blending of legally separate entities (component units) for which the County is financially accountable. The *component units* include the Otsego County Building Authority, Otsego County Road Commission, Otsego County Sportsplex, Otsego County Ambulance Corporation, Otsego County Commission on Aging, and the University Center at Gaylord. Of the entities, the Commission on Aging, while legally separate, functions for all practical purposes as a department of the County and, therefore, has been included as an integral part of the primary government. Financial information for the balance of the component units are reported separately from the financial information presented for the primary government itself. Separately issued reports can be obtained from each component unit's office as stated in Note A.

Fund Financial Statements. A fund is a grouping of related accounts and is used to maintain control over resources that have been segregated for specific activities or objectives. The County of Otsego, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Otsego County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the County's general governmental operations and the basic services it provides.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *government funds* and *governmental activities*.

COUNTY OF OTSEGO

MANAGEMENT'S DISCUSSION AND ANALYSIS

The County of Otsego maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for each major fund of the County. The major funds of the County includes the general, public improvement, housing commission, and airport construction funds. Data for the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

Proprietary Funds. The County maintains both types of proprietary funds: enterprise and internal service. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for its delinquent tax, public transit, global positioning system, imaging, plat book, and jail commissary operations. *Internal service funds* are used to accumulate and allocate costs internally among the County's various functions. Otsego County has the following internal service funds: building and grounds, administrative services and health care. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only with more detail. The proprietary fund financial statements provide separate information for each enterprise fund.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning Otsego County's budgeting for the major funds, which includes the original budget and final amended budget.

The combining statements referred to earlier in connection with non-major governmental funds and combining component unit funds are presented immediately following the required supplementary information.

Government-Wide Financial Analysis

The government-wide financial analysis focuses on the net assets and changes in net assets of the governmental and business-type activities. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The County's total assets exceeded its liabilities by \$22,149,216 at December 31, 2004, a net decrease of \$66,671 from the prior year.

COUNTY OF OTSEGO

MANAGEMENT'S DISCUSSION AND ANALYSIS

Listed below is a summary of the changes in net assets from 2003 as compared to 2004 for the Governmental Activities and the Business-Type Activities:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>2003</u>	<u>2004</u>	<u>Amount Difference</u>	<u>Percent Difference</u>
Current and Other Assets	\$ 13,003,648	\$ 13,897,420	\$ 893,772	7%
Net Capital Assets	<u>14,945,545</u>	<u>12,645,839</u>	<u>(2,299,706)</u>	<u>-15%</u>
Total Assets	<u>27,949,193</u>	<u>26,543,259</u>	<u>(1,405,934)</u>	<u>-5%</u>
Long-Term Liabilities Outstanding	5,734,044	5,029,702	(704,342)	-12%
Other Liabilities	<u>7,053,555</u>	<u>5,798,904</u>	<u>(1,254,651)</u>	<u>-18%</u>
Total Liabilities	<u>12,787,599</u>	<u>10,828,606</u>	<u>(1,958,993)</u>	<u>-15%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	7,928,529	7,900,839	(27,690)	0%
Restricted	7,202,108	7,545,073	342,965	5%
Unrestricted	<u>30,957</u>	<u>268,741</u>	<u>237,784</u>	<u>768%</u>
Total Net Assets	<u>\$ 15,161,594</u>	<u>\$ 15,714,653</u>	<u>\$ 553,059</u>	<u>4%</u>
 <u>BUSINESS-TYPE ACTIVITIES</u>	 <u>2003</u>	 <u>2004</u>	 <u>Amount Difference</u>	 <u>Percent Difference</u>
Current and Other Assets	\$ 6,176,300	\$ 5,195,331	\$ (980,969)	-16%
Net Capital Assets	<u>1,345,277</u>	<u>1,427,871</u>	<u>82,594</u>	<u>6%</u>
Total Assets	<u>7,521,577</u>	<u>6,623,202</u>	<u>(898,375)</u>	<u>-12%</u>
Long-Term Liabilities Outstanding	200,000	-	(200,000)	-100%
Other Liabilities	<u>267,284</u>	<u>188,639</u>	<u>(78,645)</u>	<u>-29%</u>
Total Liabilities	<u>467,284</u>	<u>188,639</u>	<u>(278,645)</u>	<u>-60%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	1,045,277	1,177,871	132,594	13%
Unrestricted	<u>6,009,016</u>	<u>5,256,692</u>	<u>(752,324)</u>	<u>-13%</u>
Total Net Assets	<u>\$ 7,054,293</u>	<u>\$ 6,434,563</u>	<u>\$ (619,730)</u>	<u>-9%</u>

COUNTY OF OTSEGO

MANAGEMENT'S DISCUSSION AND ANALYSIS

The largest portion of the County's net assets, \$9,078,710 (41 percent), reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net assets, \$5,525,433 (25 percent), represents *unrestricted net assets* that may be used to meet the County's ongoing obligations to citizens and creditors.

The remaining balance of \$7,545,073 (34 percent), represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the County is able to report positive balances in all three categories (invested in capital assets-net of related debt, restricted and unrestricted) of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

COUNTY OF OTSEGO

MANAGEMENT'S DISCUSSION AND ANALYSIS

Listed below is a summary of changes in the governmental revenue and expenses for the years ended December 31, 2003 and 2004:

County of Otsego's Changes in Net Assets

	Governmental Activities 2003	Governmental Activities 2004	Amount Difference	Percent Difference
Revenue				
Program Revenue				
Charges for Services	\$ 3,970,413	\$ 3,378,969	\$ (591,444)	-15%
Operating Grants and Contributions	5,017,447	5,190,705	173,258	3%
Capital Grants and Contributions	2,762,118	56,881	(2,705,237)	-98%
General Revenue				
Property Taxes	6,362,429	7,558,753	1,196,324	19%
Other	699,658	199,145	(500,513)	-72%
Total Revenue	<u>18,812,065</u>	<u>16,384,453</u>	<u>(2,427,612)</u>	<u>-13%</u>
Expenses				
General Government	6,815,014	7,291,185	476,171	7%
Public Safety	3,035,791	3,163,889	128,098	4%
Public Works	726,044	1,017,294	291,250	40%
Health and Welfare	2,270,516	2,375,268	104,752	5%
Community and Economic Development	1,428,235	1,032,899	(395,336)	-28%
Recreation and Culture	1,653,851	1,171,672	(482,179)	-29%
Other Expenditures	672,272	556,223	(116,049)	-17%
Interest on Long-Term Debt	321,939	287,257	(34,682)	-11%
Total Expenses	<u>16,923,662</u>	<u>16,895,687</u>	<u>(27,975)</u>	<u>0%</u>
Increase (Decrease) in Net Assets				
Before Transfers	1,888,403	(511,234)	(2,399,637)	-127%
Transfers	<u>560,814</u>	<u>1,727,992</u>	<u>1,167,178</u>	<u>208%</u>
Change in Net Assets	2,449,217	1,216,758	(1,232,459)	-50%
Net Assets--Beginning of Year	12,712,377	15,161,594	2,449,217	19%
Restatement to Beginning Net Assets	<u> </u>	<u>(663,699)</u>	<u>(663,699)</u>	<u>-100%</u>
Net Assets--End of Year	<u>\$ 15,161,594</u>	<u>\$ 15,714,653</u>	<u>\$ 553,059</u>	<u>4%</u>

COUNTY OF OTSEGO

MANAGEMENT'S DISCUSSION AND ANALYSIS

Listed below is a summary of changes in the business-type revenue and expenses for the years ended December 31, 2003 and 2004:

County of Otsego's Changes in Net Assets

	Business-Type Activities 2003	Business-Type Activities 2004	Amount Difference	Percent Difference
Revenue				
Program Revenue				
Charges for Services	\$ 1,005,582	\$ 780,587	\$ (224,995)	-22%
Operating Grants and Contributions	1,208,371	1,221,821	13,450	1%
Capital Grants and Contributions	371,080	245,140	(125,940)	-34%
General Revenue				
Property Taxes	228,230	237,657	9,427	4%
Other	79,175	64,601	(14,574)	-18%
Total Revenue	<u>2,892,438</u>	<u>2,549,806</u>	<u>(342,632)</u>	<u>-12%</u>
Expenses				
Delinquent Tax	11,416	16,884	5,468	48%
Public Transit	1,915,154	2,180,213	265,059	14%
Non-Major Enterprise Funds	148,010	62,439	(85,571)	-58%
Total Expenses	<u>2,074,580</u>	<u>2,259,536</u>	<u>184,956</u>	<u>9%</u>
Increase (Decrease) in Net Assets Before Transfers	817,858	290,270	(527,588)	-65%
Transfers	<u>5,112</u>	<u>(910,000)</u>	<u>(915,112)</u>	<u>-17901%</u>
Change in Net Assets	822,970	(619,730)	(1,442,700)	-175%
Net Assets--Beginning of Year	<u>6,231,323</u>	<u>7,054,293</u>	<u>822,970</u>	<u>13%</u>
Net Assets--End of Year	<u><u>\$ 7,054,293</u></u>	<u><u>\$ 6,434,563</u></u>	<u><u>\$ (619,730)</u></u>	<u><u>-9%</u></u>

The County's overall net assets decreased by \$66,671 during the current fiscal year. This decrease is attributable to various reasons, as described in the following paragraphs:

Governmental Activities. Governmental activities increased the County's net assets by \$553,059. The increase is primarily due to growth in property taxes, an increase in the amount transferred in from the Delinquent Tax Revolving Fund, and an effort to keep expenditures at the same level (in total) as the prior year.

COUNTY OF OTSEGO

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-Type Activities. Business-type activities decreased the County's net assets by \$619,730. The decrease is primarily due to less capital grants received by the public transit system, lower charges for services, a transfer out from the Delinquent Tax Revolving Fund to the governmental activities, and an increase in expenditures in the Public Transit Fund.

Financial Analysis of the County's Funds

As noted earlier, Otsego County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County's financing requirements. In particular, *unreserved* fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

On December 31, 2004, the County's governmental funds reported combined ending fund balance of \$6,223,059, an increase of \$282,300 when compared with the prior year. This is primarily attributable to a significant increase in the amount transferred into the governmental activities from the Delinquent Tax Revolving Fund (totaling \$910,000), offset by decreases in state revenue sharing, decreases in State and Federal grant funding, decreases in charges for services collections, sharp increases in both employee and retiree health benefits and unanticipated expenditures for inmate health care in the General Fund. Additionally, a restatement of fund balance reduced the beginning fund balance by \$393,739. The restatement was the result of reporting University Center as a component unit in 2004; it was reported as part of the primary government in the prior year. Of the fund balance amount, \$114,475 constitutes *unreserved fund balance*, which is available for spending at the government's discretion.

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$114,475, with a total fund balance of \$232,447. The fund balance of the County's General Fund decreased by \$90,142 during the current fiscal year. This is primarily attributable to decreases in revenue sharing, decreases in State and Federal grant funding, decreases in charge for service fees, sharp increases in both employee and retiree health benefits, and unanticipated expenditures for inmate health care.

The County's Public Improvement Fund had a total fund balance of \$1,731,285, which decreased by \$507,955 from the prior year as a result of infrastructure improvements during the fiscal year. By state law, this fund is restricted to acquiring, constructing, extending, altering, repairing or equipping public improvements or public buildings.

The County's Housing Commission had an ending fund balance of \$239,049, all of which was reserved for housing projects.

COUNTY OF OTSEGO
MANAGEMENT'S DISCUSSION AND ANALYSIS

The County's Revenue Sharing Reserve Fund had an ending fund balance of \$1,214,605. This was a new fund during 2004 and was created as a result of Public Act 357 of 2004. PA 357 of 2004 involves a gradual shift of county property tax millage from a winter tax levy to a summer tax levy and additionally, required the establishment of this restricted fund.

Proprietary Funds. The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at year-end amounted to \$5,256,692. The enterprise funds had a decrease in net assets for the year of \$619,730.

Unrestricted net assets of the internal service funds at year-end amounted to \$314,825. The internal service funds had an increase in net assets for the year of \$314,825. The internal service funds were all created during 2004.

General Fund Budgetary Highlights

Differences between the original and final amended budgets for revenue of the general fund (revenue and other financing sources) resulted in a .8 percent increase (\$79,309).

Differences between the original and final amended budgets for expenditures (expenditures and other financing uses) resulted in a 4 percent increase, (\$389,575).

Due to legal issues surrounding the 46th Circuit Trial Court, prior management chose not to include the court system in the original General Appropriations Act and made monthly budget amendments to account for court system activity. This accounts for most of the large variance between original and final budgets.

Overall during the year, General Fund revenues (revenue and other financing sources) were above the budgetary estimates by a net amount of \$193,681, or 2 percent. Noticeable variances were the result of lower than anticipated Federal and State grant revenues, lower than anticipated collection of inmate reimbursements, expenditures (expenditures and other financing uses) were minimally above the budgetary estimates, but overall were below by .2% (\$29,443) and the greatest variance was due to over \$200,000 in unanticipated inmate health care expenses. Other variances included self-funded health care expenses which were 20% greater than anticipated. This resulted in an actual decrease in fund balance of \$599,264 as compared to budgeted (anticipated) use of fund balance of \$134,496.

The Public Improvement Fund had an unfavorable variance between the final amended budget and the actual expenditures by \$144,787 (or 55.1%).

The Housing Commission Fund had a favorable variance between the final amended budget and the actual expenditures by \$193,928 (or 59.8%).

COUNTY OF OTSEGO
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Revenue Sharing Reserve Fund did not have an original or final amended budget, but did incur expenditures totaling \$247,554.

Budget-to-actual comparisons for the vast majority of the County's non-major special revenue funds were favorable.

Capital Asset and Debt Administration

Capital Assets. The County's investment in capital assets for its governmental activities as of December 31, 2004, amounted to \$12,645,839, (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings and improvements, machinery and equipment, and vehicular equipment. The total decrease in the County's investment in capital assets for the current fiscal year was approximately 3.2 percent.

Major capital asset events during the current fiscal year included the following:

- \$100,000 in vehicles
- \$350,500 in data handling equipment
- \$520,000 in various building additions and improvements
- \$1,300,000 in depreciation expense on county assets

The capital assets (net of depreciation) for the governmental activities are as follows:

Land and Improvements	\$ 401,154
Buildings and Improvements	6,977,326
Furniture and Fixtures	8,993
Machinery and Equipment	1,291,322
Vehicular Equipment	407,005
Infrastructure	<u>3,560,039</u>
Total	<u><u>\$12,645,839</u></u>

Additional information on the County's capital assets can be found in Note F of this report.

Long-Term Debt. Debt is classified as long-term if it matures in a period greater than one year. At the end of the current fiscal year, the County had total bonded debt outstanding of \$4,745,000.

COUNTY OF OTSEGO
MANAGEMENT'S DISCUSSION AND ANALYSIS

The general obligation outstanding debt for the primary government is as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
General Obligation Bonds	<u>\$ 4,745,000</u>	<u> </u>	<u>\$4,745,000</u>
Total	<u><u>\$ 4,745,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$4,745,000</u></u>

The County's total debt decreased by \$665,000 (12 percent) during the current fiscal year.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation (State Equalized Value). The current debt limitation for the County is \$134,929,216, which is significantly in excess of the County's outstanding general obligation debt. Additional information on the County's long-term debt can be found in Note H of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the County's 2005 budget:

- Property tax revenues are projected to increase 5 percent in 2005.
- Inflationary trends in the region compare favorably to national indices.
- The worsening state economy will result in decreasing state funding. The real effects of the decreases, particularly in State Revenue Sharing are yet to be known.

Highlights of the 2005 budget are as follows:

- The County made certain technological enhancements by implementing a new phone system, investing in new accounting and tax system information technologies, and outsourcing information technology management that resulted in staff reductions that affected 4 positions and reduced \$181,703 in annual payroll expenses. Additionally, investment in information technologies permitted certain departments to maintain current staffing levels (instead of utilizing the projected staffing level increase).

COUNTY OF OTSEGO

MANAGEMENT'S DISCUSSION AND ANALYSIS

- The County participated in a consortium of governmental units (schools, community colleges, etc) to develop a fiber-optic metropolitan area network. The investment resulted in reduced reliance on third parties for communications transport (T-1 connections, internal phone connections, etc.) and improved communications quality and efficiency (reduction in number of servers, etc.). Estimated savings, exclusive of switch-board operator included in annual payroll expense savings, totals over \$50,000 annually.

During the current fiscal year, unreserved fund balance in the General Fund decreased to \$114,475. The general rule of thumb is that fund balances can be used to help government weather bad times, but should not be used as a means of funding routine operations. The continuing decline in State and Federal revenues will force the county commissioners to evaluate further service reductions to arrest the decrease and implement a plan to restore fund balance in the General Fund to a reasonable level.

Contacting the County's Financial Management

This financial report is designed to provide a general overview of the County's finances to all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to County Administrator, County of Otsego, 225 West Main Street, Gaylord, Michigan 49735.

OTSEGO COUNTY
STATEMENT OF NET ASSETS
December 31, 2004

EXHIBIT A

	PRIMARY GOVERNMENT			Discretely Presented Component Units
	Governmental Activities	Business-Type Activities	Total	
<u>ASSETS</u>				
Current Assets				
Cash and Cash Equivalents	\$ 2,351,364	\$ 62,310	\$ 2,413,674	\$ 610,673
Investments	2,847,967	3,395,374	6,243,341	1,330,273
Receivables (Net)				
Taxes--Current	6,111,135		6,111,135	2,206,371
Taxes--Delinquent		1,335,007	1,335,007	
Accounts	66,688	20,106	86,794	216,920
Loans	1,541,036		1,541,036	
Due From Component Units	3,904		3,904	
Due From State	270,957	76,009	346,966	
Due From Local Units of Governments	342,058	556,525	898,583	781,235
Inventories	41,739		41,739	546,297
Prepaid Insurance	4,458		4,458	
Total Current Assets	13,581,306	5,445,331	19,026,637	5,691,769
Noncurrent Assets				
Long-Term Advance to Component Unit	66,114		66,114	
Internal Balance	250,000	(250,000)	-	
Capital Assets, Net of Accumulated Depreciation	12,645,839	1,427,871	14,073,710	15,068,912
Total Noncurrent Assets	12,961,953	1,177,871	14,139,824	15,068,912
Total Assets	\$ 26,543,259	\$ 6,623,202	\$ 33,166,461	\$ 20,760,681
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities				
Accounts Payable	\$ 769,407	\$ 98,387	\$ 867,794	\$ 94,196
Accrued Liabilities	191,909	61,813	253,722	115,292
Other Liabilities		28,439	28,439	
Due to Primary Government			-	3,904
Advances From State			-	276,680
Due to State	21,535		21,535	
Due to Local Units	64,438		64,438	
Deferred Revenue	4,689,963		4,689,963	2,217,038
Interest Payable	61,652		61,652	
Total Current Liabilities	5,798,904	188,639	5,987,543	2,707,110

OTSEGO COUNTY
STATEMENT OF NET ASSETS
December 31, 2004

EXHIBIT A
(CONTINUED)

	PRIMARY GOVERNMENT			Discretely Presented Component Units
	Governmental Activities	Business-Type Activities	Total	
Long-Term Liabilities				
Advances From State	50,000		50,000	
Long-Term Advances From				
Other Funds--Primary Government			-	66,114
Other Governmental Units	72,235		72,235	
Bonds Payable--Due Within One Year	710,000		710,000	
Bonds Payable--Due in More Than One Year	4,035,000		4,035,000	
Installment Purchase Agreements Payable				
Due Within One Year				155,084
Due in More Than One Year				264,135
Vested Employee Benefits Payable	162,467		162,467	61,379
Total Noncurrent Liabilities	5,029,702	-	5,029,702	546,712
Total Liabilities	10,828,606	188,639	11,017,245	3,253,822
Net Assets				
Investment in Capital Assets, Net of Related Debt	7,900,839	1,177,871	9,078,710	14,649,693
Restricted for				
Debt Service	88,720		88,720	
Capital Projects	490,896		490,896	
Ambulance and Emergency Services				74,838
County Roads				1,740,733
Sportsplex				661,250
University Center				380,345
Public Improvement	1,731,285		1,731,285	
Housing Commission	1,793,510		1,793,510	
Revenue Sharing Reserve	1,214,605		1,214,605	
Other Purposes	2,226,057		2,226,057	
Unrestricted	268,741	5,256,692	5,525,433	
Total Net Assets	\$ 15,714,653	\$ 6,434,563	\$ 22,149,216	\$ 17,506,859

The Notes to Financial Statements are an integral part of this statement.

OTSEGO COUNTY
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2004

EXHIBIT B

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
Primary Government								
Governmental Activities								
General Government	\$ 7,291,185	\$ 1,279,847	\$ 3,711,261	\$ 56,881	\$ (2,243,196)		\$ (2,243,196)	
Public Safety	3,163,889	1,118,641	171,576		(1,873,672)		(1,873,672)	
Public Works	1,017,294	475,401	98,478		(443,415)		(443,415)	
Health and Welfare	2,375,268	106,878	1,037,827		(1,230,563)		(1,230,563)	
Community and Economic Development	1,032,899	23,750	126,524		(882,625)		(882,625)	
Recreation and Culture	1,171,672	374,452	45,039		(752,181)		(752,181)	
Other	556,223				(556,223)		(556,223)	
Interest on Long-Term Debt	287,257				(287,257)		(287,257)	
Total Governmental Activities	16,895,687	3,378,969	5,190,705	56,881	(8,269,132)	\$ -	(8,269,132)	\$ -
Business-Type Activities								
Delinquent Tax Revolving	16,884	461,755				444,871	444,871	
Public Transit	2,180,213	279,327	1,221,821			(679,065)	(679,065)	
Non-Major Enterprise Funds	62,439	39,505		245,140		222,206	222,206	
Total Business-Type Activities	2,259,536	780,587	1,221,821	245,140	-	(11,988)	(11,988)	-
Total Primary Government	\$ 19,155,223	\$ 4,159,556	\$ 6,412,526	\$ 302,021	\$ (8,269,132)	\$ (11,988)	\$ (8,281,120)	\$ -
Component Units								
Road Commission	\$ 6,548,082	\$ 1,196,682	\$ 3,935,208	\$ 1,267,516				\$ (148,676)
Ambulance	1,416,202	909,476	12,878					(493,848)
University Center	607,582		200,475					(407,107)
Sportsplex	856,433	553,660	(1,186)					(303,959)
Total Component Units	\$ 9,428,299	\$ 2,659,818	\$ 4,147,375	\$ 1,267,516	\$ -	\$ -	\$ -	\$ (1,353,590)
General Revenues								
Property Taxes					\$ 7,558,753	\$ 237,657	\$ 7,796,410	\$ 2,052,542
State-Shared Revenues					160,193		160,193	
Unrestricted Investment Earnings					38,952	(30,795)	8,157	
Miscellaneous						95,396	95,396	97,516
Transfers In (Out)					1,727,992	(910,000)	817,992	(817,992)
Total General Revenues--Special Items and Transfers					9,485,890	(607,742)	8,878,148	1,332,066
Change in Net Assets					1,216,758	(619,730)	597,028	(21,524)
Net Assets--Beginning					15,161,594	7,054,293	22,215,887	16,827,842
Restatement to Net Assets					(663,699)		(663,699)	700,541
Restated Net Assets--Beginning					14,497,895	7,054,293	21,552,188	17,528,383
Net Assets--Ending					\$ 15,714,653	\$ 6,434,563	\$ 22,149,216	\$ 17,506,859

The Notes to Financial Statements are an integral part of this statement.

**OTSEGO COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2004**

EXHIBIT C

	SPECIAL REVENUE FUNDS				Non-Major Governmental Funds	Total Governmental Funds
	General	Public Improvement	Housing Commission	Revenue Sharing Reserve		
<u>ASSETS</u>						
Cash and Cash Equivalents	\$ 146,672	\$ 727,814	\$ 152,574		\$ 1,080,839	\$ 2,107,899
Investments	84,902	759,466	95,385		1,756,007	2,695,760
Receivables						
Taxes	2,924,186			\$ 1,462,159	1,724,790	6,111,135
Accounts	33,412				33,276	66,688
Loans			1,541,036			1,541,036
Due From Other Funds--Primary Government	273,250				107,225	380,475
Due From Other Funds--Component Units	3,904					3,904
Due From State	189,485				76,785	266,270
Due From Local Units	318,871				23,187	342,058
Inventories	6,358				35,056	41,414
Prepaid Expense	1,290				3,168	4,458
Long-Term Advances to						
Other Funds--Primary Government		250,000				250,000
Other Funds--Component Units	66,114					66,114
Total Assets	\$ 4,048,444	\$ 1,737,280	\$ 1,788,995	\$ 1,462,159	\$ 4,840,333	\$ 13,877,211
<u>LIABILITIES AND FUND EQUITY</u>						
Liabilities						
Accounts Payable	\$ 651,154	\$ 5,995	\$ 7,950		\$ 76,857	\$ 741,956
Due to Other Funds--Primary Government	38,765			\$ 247,554	45,066	331,385
Due to Local Units	2,965				61,473	64,438
Due to State					21,535	21,535
Accrued Liabilities	126,692		960		54,939	182,591
Long-Term Liabilities						
Advances From State					50,000	50,000
Long-Term Advances From						
Other Governmental Units	72,235					72,235
Deferred Revenue	2,924,186		\$ 1,541,036		1,724,790	6,190,012
Total Liabilities	3,815,997	5,995	1,549,946	247,554	2,034,660	7,654,152

**OTSEGO COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2004**

**EXHIBIT C
(CONTINUED)**

	SPECIAL REVENUE FUNDS				Non-Major Governmental Funds	Total Governmental Funds
	General	Public Improvement	Housing Commission	Revenue Sharing Reserve		
Fund Equity						
Fund Balances						
Reserved for						
Long-Term Advances	66,114					66,114
State Remonumentation	11,477					11,477
Family Counseling	40,381					40,381
Inventory					35,056	35,056
Schneider Trust					49,516	49,516
Donations					5,059	5,059
Debt Service					88,720	88,720
Capital Projects/Improvements		1,731,285			490,896	2,222,181
Housing Projects			239,049			239,049
Revenue Sharing Reserve				1,214,605		1,214,605
Special Revenue Programs					2,074,903	2,074,903
Designated					61,523	61,523
Unreserved--Undesignated	114,475					114,475
Total Fund Equity	232,447	1,731,285	239,049	1,214,605	2,805,673	6,223,059
Total Liabilities and Fund Equity	<u>\$ 4,048,444</u>	<u>\$ 1,737,280</u>	<u>\$ 1,788,995</u>	<u>\$ 1,462,159</u>	<u>\$ 4,840,333</u>	<u>\$ 13,877,211</u>

Fund Balance--Total Governmental Funds \$ 6,223,059

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 12,645,839

Revenues that do not provide current financial resources are not reported as revenue in the funds. 1,500,049

Internal service funds are used by management to charge the costs of certain activities such as insurance and telephone service to individual governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. 314,825

Certain liabilities, such as bonds payable, interest payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds. (4,969,119)

Total Net Assets \$ 15,714,653

The Notes to Financial Statements are an integral part of this statement.

OTSEGO COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2004

EXHIBIT D

	SPECIAL REVENUE FUNDS				Non-Major Governmental	Total Governmental Funds
	General	Public Improvement	Housing Commission	Revenue Sharing Reserve		
Revenues						
Taxes and Penalties	\$ 4,191,674			\$ 1,462,159	\$ 1,904,920	\$ 7,558,753
Licenses and Permits	100,269				493,220	593,489
Federal Grants	786,507		\$ 55,844		260,025	1,102,376
State Grants	876,790	\$ 48,871			254,797	1,180,458
Contributions From Local Units	2,216,197	8,010	3,890		41,592	2,269,689
Charges for Services	1,093,250	44,983			1,285,648	2,423,881
Fines and Forfeits	50,689				194,569	245,258
Interest and Rentals	41,247	6,791	6,312		208,778	263,128
Other Revenue	50,969	4,398	114,890		556,767	727,024
Total Revenues	9,407,592	113,053	180,936	1,462,159	5,200,316	16,364,056
Expenditures						
Current						
General Government	6,375,501	18,983			422,144	6,816,628
Public Safety	2,096,203				980,412	3,076,615
Public Works	2,350				694,896	697,246
Health and Welfare	402,805				1,958,446	2,361,251
Community and Economic Development	176,526		130,200		726,767	1,033,493
Recreation and Cultural	1,000				950,186	951,186
Other	550,149					550,149
Capital Outlay		194,516			469,058	663,574
Debt Service						
Principal					665,000	665,000
Interest and Fiscal Fees					297,897	297,897
Total Expenditures	9,604,534	213,499	130,200	-	7,164,806	17,113,039
Excess of Revenues Over (Under) Expenditures	(196,942)	(100,446)	50,736	1,462,159	(1,964,490)	(748,983)
Other Financing Sources (Uses)						
Interfund Transfers In--Primary Government	619,854				2,096,585	2,716,439
Interfund Transfers In--Component Unit						-
Interfund Transfers (Out)--Primary Government	(513,054)	(407,509)		(247,554)	(123,300)	(1,291,417)
Total Other Financing Sources (Uses)	106,800	(407,509)	-	(247,554)	1,973,285	1,425,022
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(90,142)	(507,955)	50,736	1,214,605	8,795	676,039
Fund Balance (Deficit)--January 1, 2004	322,589	2,239,240	188,313	-	3,190,617	5,940,759
Restatement to Fund Balance--January 1, 2004					(393,739)	(393,739)
Restated Fund Balance--January 1, 2004	322,589	2,239,240	188,313	-	2,796,878	5,547,020
Fund Balance (Deficit)--December 31, 2004	\$ 232,447	\$ 1,731,285	\$ 239,049	\$ 1,214,605	\$ 2,805,673	\$ 6,223,059

The Notes to Financial Statements are an integral part of this statement.

OTSEGO COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2004

EXHIBIT D-1

Net Change in Fund Balances--Total Governmental Funds \$ 676,039

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Add--Capital Outlay	663,574
Deduct--Depreciation Expense	(1,086,304)

Revenues earned but not available for current resources are not reported in the funds.

Housing Commission--Loans Paid Out During 2004	(54,412)
--	----------

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Add--Principal Payments on Long-Term Liabilities	665,000
--	---------

Accrued interest expense is not recorded by governmental funds but is reported under interest and fiscal charges for purposes of net assets.

Add--Net Decrease in Accrued Interest Expense for 2004	10,641
--	--------

Internal service funds are used by management to charge the costs of certain activities such as insurance and telephone service to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Add--Net Operating income (Loss) From Governmental Activities in Internal Service Funds	11,855
---	--------

Add--Transfers to Internal Service Funds to Other Governmental Funds	302,970
--	---------

Some Expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds. Net decrease in compensated absences.

27,395

Change in Net Assets of Governmental Activities

\$ 1,216,758

The Notes to Financial Statements are an integral part of this statement.

OTSEGO COUNTY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2004

EXHIBIT E

	BUSINESS-TYPE ACTIVITIES--ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	Delinquent Tax Revolving	9/30/04 Public Transit	Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Funds
<u>ASSETS</u>					
Current Assets					
Cash and Cash Equivalents	\$ (68,469)	\$ 84,286	\$ 46,493	\$ 62,310	\$ 201,340
Investments	3,366,307		29,067	3,395,374	125,872
Receivables					
Taxes--Delinquent	1,335,007			1,335,007	
Accounts	3,487	16,619		20,106	
Due From State		76,009		76,009	4,687
Due From Other Funds					19,370
Due From Local Units	467,200	89,325		556,525	
Inventory				-	325
Total Current Assets	5,103,532	266,239	75,560	5,445,331	351,594
Noncurrent Assets					
Capital Assets, Net of Accumulated Depreciation	21,645	1,170,171	236,055	1,427,871	
Total Noncurrent Assets	21,645	1,170,171	236,055	1,427,871	-
Total Assets	\$ 5,125,177	\$ 1,436,410	\$ 311,615	\$ 6,873,202	\$ 351,594
<u>LIABILITIES</u>					
Current Liabilities					
Accounts Payable	\$ 10,412	\$ 84,825	\$ 3,150	\$ 98,387	\$ 27,451
Accrued Liabilities		61,813		61,813	9,318
Other Liabilities	10,796	17,643		28,439	
Total Current Liabilities	21,208	164,281	3,150	188,639	36,769
Noncurrent Liabilities					
Long-Term Advance From County		250,000		250,000	
Total Noncurrent Liabilities	-	250,000	-	250,000	-
Total Liabilities	21,208	414,281	3,150	438,639	36,769
<u>NET ASSETS</u>					
Invested in Capital Assets, Net of Related Debt	21,645	920,171	236,055	1,177,871	
Unrestricted	5,082,324	101,958	72,410	5,256,692	314,825
Total Net Assets	\$ 5,103,969	\$ 1,022,129	\$ 308,465	\$ 6,434,563	\$ 314,825

The Notes to Financial Statements are an integral part of this statement.

OTSEGO COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS--PROPRIETARY FUNDS
For the Year Ended December 31, 2004

EXHIBIT F

	BUSINESS-TYPE ACTIVITIES--ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	Delinquent Tax Revolving	9/30/04 Public Transit	Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Operating Revenues					
Charges for Services	\$ 222,880	\$ 279,327	\$ 39,505	\$ 541,712	\$ 466,090
Interest on Delinquent Taxes	238,875			238,875	
Other					404,587
Total Operating Revenues	461,755	279,327	39,505	780,587	870,677
Operating Expenses					
Salaries, Wages, and Fringe Benefits		1,540,545		1,540,545	407,438
Contractual Services			15,763	15,763	
Materials and Supplies	12,700		28,976	41,676	31,100
Equipment Repair and Maintenance			2,967	2,967	61,076
Utilities				-	98,171
Depreciation	4,184	192,507	14,733	211,424	
Other		447,161		447,161	261,037
Total Operating Expenses	16,884	2,180,213	62,439	2,259,536	858,822
Operating Income (Loss)	444,871	(1,900,886)	(22,934)	(1,478,949)	11,855
Nonoperating Revenues (Expenses)					
State Operating Grants		625,911		625,911	
Federal Operating Grants		162,853		162,853	
State and Federal Grants--Prior Year Adjustments		(78,767)		(78,767)	
Interest Earned on Investments	(32,041)	1,246		(30,795)	
Contributions From Other Units		511,824	-	511,824	
Property Taxes Levied		237,657		237,657	
Other		95,396	-	95,396	
Total Nonoperating Revenues (Expenses)	(32,041)	1,556,120	-	1,524,079	-
Income (Loss) Before Contributions and Transfers	412,830	(344,766)	(22,934)	45,130	11,855
Capital Contributions					
Contributions From Other Units			195,140	195,140	
Other Donations			50,000	50,000	
Interfund Transfers					
Transfers In			20,101	20,101	302,970
Transfers (Out)	(925,000)		(5,101)	(930,101)	
Change in Net Assets	(512,170)	(344,766)	237,206	(619,730)	314,825
Total Net Assets--January 1, 2004	5,616,139	1,366,895	71,259	7,054,293	-
Total Net Assets--December 31, 2004	\$ 5,103,969	\$ 1,022,129	\$ 308,465	\$ 6,434,563	\$ 314,825

The Notes to Financial Statements are an integral part of this statement.

OTSEGO COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2004

EXHIBIT G

	BUSINESS-TYPE ACTIVITIES--ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	Delinquent Tax Revolving	09/30/04 Public Transit	Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash Flows From Operating Activities					
Cash Received From Customers	\$ 221,795	\$ 278,675	\$ 39,505	\$ 539,975	\$ 846,620
Interest on Delinquent Taxes	238,875			238,875	
Delinquent Taxes Purchased	(2,743,499)			(2,743,499)	
Delinquent Taxes Collected	2,459,519			2,459,519	
Cash Payments to Employees for Services and Benefits		(1,541,156)		(1,541,156)	(398,120)
Cash Payments to Suppliers for Goods and Services	(15,902)	(413,112)	(44,934)	(473,948)	(424,258)
Net Cash Provided by Operating Activities	160,788	(1,675,593)	(5,429)	(1,520,234)	24,242
Cash Flows From Noncapital Financing Activities					
State Grants		706,508		706,508	
Federal Grants		159,257		159,257	
State and Federal Grants--Prior Year Adjustments		(78,767)		(78,767)	
Property Tax		237,657		237,657	
Contributions From Other Units		517,320		517,320	
Other		95,396		95,396	
Due From Other Units of Government	(345,992)			(345,992)	
Due to Other Funds--Primary	(178)			(178)	
Long-Term Advance to Other County		10,000		10,000	
Transfers In (Out)	(925,000)		15,000	(910,000)	302,970
Net Cash Provided by Noncapital Financing Activities	(1,271,170)	1,647,371	15,000	391,201	302,970
Cash Flows From Capital and Related Financing Activities					
Contributions From Other Units			195,140		
Long-Term Advance From County		(50,000)		(50,000)	
Capital Assets Purchased With Local Funds	(24,050)	(24,000)	(245,969)	(294,019)	
Other Donations			50,000	50,000	
Net Cash Provided by Capital and Related Financing Activities	(24,050)	(74,000)	(829)	(294,019)	-
Cash Flows From Investing Activities					
Interest on Cash Equivalents	(32,041)	1,246		(30,795)	
Sale or (Purchase) of Investments	(181,092)		4,697	(176,395)	(125,872)
Net Cash Provided by Investing Activities	(213,133)	1,246	4,697	(207,190)	(125,872)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,347,565)	(100,976)	13,439	(1,435,102)	201,340
Cash and Cash Equivalents at Beginning of Year	1,279,096	185,262	33,054	1,497,412	-
Cash and Cash Equivalents at End of Year	\$ (68,469)	\$ 84,286	\$ 46,493	\$ 62,310	\$ 201,340
Reconciliation of Operating Income to Net Cash Provided by Operating Activities					
Operating Income (Loss)	\$ 444,871	\$ (1,900,886)	\$ (22,934)	\$ (1,478,949)	\$ 11,855
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities					
Depreciation Expense	4,184	192,507	14,733	211,424	
(Increase) Decrease in Delinquent Taxes Receivable	(283,980)			(283,980)	
(Increase) Decrease in Accounts Receivable	(1,085)	(652)		(1,737)	(24,057)
(Increase) Decrease in Inventory				-	(325)
Increase (Decrease) in Accounts Payable	(3,202)	34,049	2,772	33,619	27,451
Increase (Decrease) in Accrued Wages Payable		(611)		(611)	9,318
Net Cash Provided by Operating Activities	\$ 160,788	\$ (1,675,593)	\$ (5,429)	\$ (1,520,234)	\$ 24,242

The Notes to Financial Statements are an integral part of this statement.

**OTSEGO COUNTY
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
December 31, 2004**

EXHIBIT H

	Agency Funds	Other Employee Benefit Trust Fund
<u>ASSETS</u>		
Cash	\$ 2,610,532	
Investments	<u>1,804,109</u>	<u>\$ 279,919</u>
Total Assets	<u><u>\$ 4,414,641</u></u>	<u><u>\$ 279,919</u></u>
<u>LIABILITIES</u>		
Liabilities		
Due to State of Michigan	\$ 3,061,173	
Due to Federal Government	22,499	
Due to Cities	24	
Undistributed Tax Collections	847,175	
Bonds Restitutions and Payable to Individuals	73,924	
Other Trust Payable	2,329	
Other Payroll Liabilities	235,429	
Premium Deposits	<u>172,088</u>	
Total Liabilities	<u><u>\$ 4,414,641</u></u>	<u><u>\$ -</u></u>
<u>NET ASSETS</u>		
Net Assets Held in Trust		<u><u>\$ 279,919</u></u>

The Notes to the Financial Statements are an integral part of this statement.

**OTSEGO COUNTY
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2004**

EXHIBIT I

	Employee Benefit Trust Fund
	<hr/>
<u>ADDITIONS</u>	
Contributions	
Employer	<u>\$ 62,694</u>
Total Contributions	<u>62,694</u>
Investment Income	
Interest	<u>2,168</u>
Total Investment Income	<u>2,168</u>
Net Investment Income	<u>2,168</u>
Total Additions	<u>64,862</u>
<u>DEDUCTIONS</u>	
Benefits	<u>1,320</u>
Total Deductions	<u>1,320</u>
Change in Net Assets	63,542
Net Assets--Beginning of the Year	<u>216,377</u>
Net Assets--End of the Year	<u><u>\$ 279,919</u></u>

The Notes to the Financial Statements are an integral part of this statement.

**OTSEGO COUNTY
STATEMENT OF NET ASSETS
COMPONENT UNITS
December 31, 2004**

EXHIBIT J

	Road Commission	Ambulance Corporation	University Center	Sportsplex	Total
<u>ASSETS</u>					
Current Assets					
Cash	\$ 5,300	\$ 22,629	\$ 254,993	\$ 327,751	\$ 610,673
Investments	876,349	47	152,512	301,365	1,330,273
Receivables					
Taxes Receivable		433,109	603,001	1,170,261	2,206,371
Accounts	2,350	173,877	8,062	32,631	216,920
Due From Local Units of Government	781,235				781,235
Inventories	514,687			31,610	546,297
Total Current Assets	2,179,921	629,662	1,018,568	1,863,618	5,691,769
Noncurrent Assets					
Capital Assets (Net of Accumulated Depreciation)	14,038,354	791,800	238,758		15,068,912
Total Noncurrent Assets	14,038,354	791,800	238,758	-	15,068,912
Total Assets	<u>\$ 16,218,275</u>	<u>\$ 1,421,462</u>	<u>\$ 1,257,326</u>	<u>\$ 1,863,618</u>	<u>\$ 20,760,681</u>
<u>LIABILITIES</u>					
Current Liabilities					
Accounts Payable	\$ 7,844	\$ 35,781	\$ 20,917	\$ 29,654	\$ 94,196
Accrued Liabilities	93,285	15,916	3,638	2,453	115,292
Due to Primary Government		3,904			3,904
Advances From MDOT	276,680				276,680
Deferred Revenue		433,109	613,668	1,170,261	2,217,038
Total Current Liabilities	377,809	488,710	638,223	1,202,368	2,707,110
Noncurrent Liabilities					
Long-Term Advances From					
Primary Government--General Fund		66,114			66,114
Installment Purchase Agreements Payable					
Due Within One Year	74,721	80,362			155,083
Due in More Than One Year	123,224	140,912			264,136
Vested Employee Benefits Payable	61,379				61,379
Total Noncurrent Liabilities	259,324	287,388	-	-	546,712
Total Liabilities	637,133	776,098	638,223	1,202,368	3,253,822
<u>NET ASSETS</u>					
Invested in Capital Assets--Net of Related Debt	13,840,409	570,526	238,758		14,649,693
Restricted for					
Ambulance and Emergency Services		74,838			74,838
County Roads	1,740,733				1,740,733
Sportsplex				661,250	661,250
University Center			380,345		380,345
Total Net Assets	<u>\$ 15,581,142</u>	<u>\$ 645,364</u>	<u>\$ 619,103</u>	<u>\$ 661,250</u>	<u>\$ 17,506,859</u>

The Notes to Financial Statements are an integral part of this statement.

OTSEGO COUNTY
STATEMENT OF ACTIVITIES
COMPONENT UNITS
For the Year Ended December 31, 2004

EXHIBIT K

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS				
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Road	Ambulance Corporation	University Center	Sportsplex	Total
Road Commission									
Public Works	\$ 6,544,488	\$ 1,196,682	\$ 3,935,208	\$ 1,267,516	\$ (145,082)				\$ (145,082)
Interest on Related Debt	3,594				(3,594)				(3,594)
Total Road Commission	6,548,082	1,196,682	3,935,208	1,267,516	(148,676)	\$ -	\$ -	\$ -	(148,676)
Ambulance Corporation									
Health and Welfare	1,397,008	909,476	12,878			(474,654)			(474,654)
Interest on Related Debt	19,194					(19,194)			(19,194)
Total Ambulance Corporation	1,416,202	909,476	12,878	-	-	(493,848)	-	-	(493,848)
University Center									
Recreational and Cultural	607,582		200,475				(407,107)		(407,107)
Total University Center	607,582	-	200,475	-	-	-	(407,107)	-	(407,107)
Sportsplex									
Recreation and Culture	856,433	553,660	(1,186)					(303,959)	(303,959)
Total Sportsplex	\$ 856,433	\$ 553,660	\$ (1,186)	\$ -	-	-	-	(303,959)	(303,959)
General Revenues									
Property Taxes						403,796	566,957	1,081,789	2,052,542
Other Revenues					97,516				97,516
Transfers									
Interfund Transfers (Out)							(241,288)	(576,704)	(817,992)
Total General Revenues--Special Items and Transfers					97,516	403,796	325,669	505,085	1,332,066
Change in Net Assets						(90,052)	(81,438)	201,126	(21,524)
Net Assets--Beginning of Year					15,632,302	735,416	700,541	460,124	17,528,383
Net Assets--End of Year					\$ 15,581,142	\$ 645,364	\$ 619,103	\$ 661,250	\$ 17,506,859

The Notes to Financial Statements are an integral part of this statement.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Otsego County was organized in 1840 and covers an area of approximately 527 square miles divided into 9 townships, 1 village and 1 city. The county seat is located in the City of Gaylord. The County of Otsego operates under an elected board of commissioners (9 members) with an appointed county coordinator who assists with day-to-day operations. The County of Otsego provides services to its more than 23,300 residents in many areas including law enforcement, administration of justice, community enrichment and development, and human services.

The accounting policies of the County of Otsego conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Otsego County:

Reporting Entity

The accompanying financial statements present the government and its component units; entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. The criteria established by the Governmental Accounting Standards Board (GASB) for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading, if data were not included. The component unit total is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description of each component unit). Each discretely presented component unit is reported separately in Exhibit J and K of the financial statements.

BLENDED COMPONENT UNITS

Building Authority

The Otsego County Building Authority is governed by a 3 member board appointed by the county board of commissioners. Although it is legally separate from the county, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the county's public buildings. The financial statements of the Otsego County Building Authority are reported in the county's Debt Service Fund and Capital Projects Fund as presented in this report.

In July 2004, the County of Otsego and the City of Gaylord agreed to eliminate the Building Authority upon successful completion and adoption of an interlocal governmental agreement governing the management of the building. As of October 31, 2004, the operations and the maintenance activities of the Building Authority ceased and all remaining monies in the operation and maintenance fund were subsequently transferred to the county.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bus System

The Otsego County Bus System is not legally separate but is administered by a 3 member standing committee of the county board of commissioners. The Bus System Committee may not issue debt and the tax levy is subject to county board of commissioners' approval. The Bus System taxes are levied under the taxing authority of the county, as approved by the county electors, and is included as part of the county's total tax levy as well as reported in the Bus System Fund.

Commission On Aging

The Otsego County Commission on Aging (Commission) is not legally separate, but is administered by an advisory board of directors (board) with 12 members. Members of the board are selected by the county from nine districts and an additional three at-large members. The board of directors may not issue debt and the tax levy is subject to county board of commissioners' approval. The Commission's taxes are levied under the taxing authority of the county, as approved by the county electors, and is included as part of the county's total tax levy as well as reported in the Commission on Aging Fund.

DISCRETELY PRESENTED COMPONENT UNITS

County Road Commission

The Otsego County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member board of county road commissioners elected biennially to serve a 6-year term. The Road Commission may not issue debt without the county's approval and the tax levy is subject to county board of commissioners' approval. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors, and would be included as part of the county's total tax levy as well as reported in the County Road Fund as a special revenue fund.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Otsego County Sportsplex

The Otsego County Sportsplex, a nonprofit corporation that was established pursuant to the provisions of Public Act 162 of 1982, has an agreement with the County of Otsego to operate and maintain a recreational and sports complex for Otsego County. The sports complex was constructed during 1995 and opened in early 1996. The Sportsplex is operated by a board of directors, which consist of between 7 to 15 members. Members are elected by the affirmative vote of a majority of the directors. The Sportsplex may not issue debt without the county's approval and the tax levy is subject to county board of commissioners' approval. The Sportsplex's taxes are levied under the taxing authority of the county, as approved by the county electors, and are included as part of the county's total tax levy reported in the County Sportsplex Fund. The county board of commissioners also approves the budget and fee charges. Although this is a nonprofit corporation, the activities fit the description of a governmental special revenue fund type and, accordingly, are reported as a special revenue fund in this report.

Otsego County Ambulance Corporation, Inc.

The Otsego County Ambulance Corporation, Inc., a nonprofit corporation which was established pursuant to the provisions of Public Act 327 of 1931, as amended, and Public Act 284 of 1972, has an agreement with the County of Otsego to provide ambulance service in and about the County of Otsego. A 9-member board governs the Ambulance Corporation. The Ambulance Corporation may not issue debt without the county's approval and a tax levy is subject to county board of commissioners' approval. If approval is granted, the Ambulance's taxes are levied under the taxing authority of the county, as approved by the county electors, and would be included as part of the county's total tax levy as well as in the Ambulance Fund. All assets are in the name of the county. The activities fit the description of a governmental special revenue fund type and, accordingly, are reported as a special revenue fund in this report.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Otsego County University Center

The Otsego County University Center, a nonprofit corporation that was established pursuant to the provisions of Public Act 162 of 1982, has an agreement with the County of Otsego to operate and maintain an organization to foster the goals of those educational corporations, foundations, and businesses within Otsego County and ensure that adequate educational opportunities are available to their employees and staff. The University Center is operated by a board of directors, which consists of 11 members. The 11 members are composed of 3 members from the Business Community of Otsego County, 3 members from the citizenship of Otsego County, 2 members from the Otsego County Public or private educational community, 1 member from the Gaylord/Otsego County Chamber of Commerce who serves as Executive Director, 1 member from the governmental units of Otsego County chosen from the county, city, village, and township officials, and 1 member who is the University Center Coordinator. The University Center may not issue debt without the county's approval and the tax levy is subject to county board of commissioners' approval. The University Center's taxes are levied under the taxing authority of the county, as approved by the county electors, and are included as part of the county's total tax levy reported in the County University Center Fund. The county board of commissioners also approves the budget and fee charges. Although this is a nonprofit corporation, the activities fit the description of a governmental special revenue fund type and, accordingly, are reported as a special revenue fund in this report.

Complete financial statements of the individual component units can be obtained from their respective administrative offices or from the County Clerk's Office at the courthouse.

Administrative Offices

Otsego County Bus System
1254 Energy Drive
Gaylord, Michigan 49735

Otsego County Road Commission
Industrial Park, P.O. Box 537
Gaylord, Michigan 49735

Otsego County Sportsplex
1250 Gornick Avenue
Gaylord, Michigan 49735

Otsego County Ambulance Corporation, Inc.
100 McLouth, P.O. Box 642
Gaylord, Michigan 49735

Otsego County University Center
80 Livingston Boulevard
Gaylord, Michigan 49735

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

JOINTLY GOVERNED ORGANIZATIONS

46th Circuit Trial Court

Otsego, Crawford and Kalkaska counties participate jointly in the operation of the 46th Circuit Trial Court. The funding formula approved by the member counties is based on a cost-study. Member counties' percentages of net operating budget for the year 2004 were:

Otsego	45 percent
Crawford	27 percent
Kalkaska	28 percent

Otsego County pays all expenditures and is reimbursed actual expenditures from Crawford and Kalkaska counties at the percentages listed above.

Northwest Michigan Community Health Agency

Northwest Michigan Community Health Agency provides health service for Otsego County. The counties of Otsego, Antrim, Emmet and Charlevoix jointly established the agency. The financial operations of the Health Agency are recorded in the records of Charlevoix County. The funding formula approved by the member counties is based pro rata on each unit's population and equalized valuation to the district's total population and valuation. Member counties' percentages of the net operation budget for the year of 2004 were:

Otsego	22.4 percent	Antrim	22.2 percent
Charlevoix	25.1 percent	Emmet	30.3 percent

Otsego County's appropriation and cigarette tax to the Health Agency for the year was \$177,987.

Michigan Technical Education Center (M-TEC)

Kirtland Community College, a community college district established pursuant to the provisions of Public Act 331 of 1996, obtained funding through the Michigan Economic Development Corporation (MEDC) to construct and equip the Michigan Technical Center (M-TEC), an educational facility in the County of Otsego. On December 7, 1999, the electors of the county authorized a tax levy not to exceed .65 mills for a period of 20 years for the purpose of generating funds to operate the facility. The facility provides vocational, technical, job skills, or workforce development programs and services. Pursuant to the operating agreement, Kirtland established an advisory board (which includes representatives of the county) and is to report its preliminary, final and amended M-TEC budgets to the county's board. Financial records for M-TEC are recorded and maintained by the Kirtland Community College and audited separately. Otsego County's tax revenues amounted to \$658,091 for which Otsego appropriated \$651,939 to Kirtland Community College.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Michigan Technical Education Center (M-TEC) is used in conjunction with and occupied by the University Center established and operated by the University Center of Gaylord, a non-profit corporation.

North Country Community Mental Health

The North Country Community Mental Health consists of the counties of Antrim, Charlevoix, Cheboygan, Emmet, Kalkaska and Otsego. Financial records for the board are recorded and maintained by the mental health and audited separately.

The funding formula for the community mental health operations and services is in accordance with an agreement approved by each county. The current agreement provides that each county will pay at an agreed upon rate. The 2004 local match for Otsego County was \$94,003.

Joint Building Authority of Otsego County

The County of Otsego and City of Gaylord under Public Act 31 of 1948 (first extra session), as amended, in 1966, created the Otsego County Joint Building Authority. Its primary purpose was to provide a funding vehicle for the acquisition and construction of a building to serve as offices for the governmental units. The Joint Building Authority operates autonomously under an intergovernmental lease and service agreement. It operates and maintains the building for the governmental units charging maintenance fees to each unit. Maintenance fees paid by the county to the Joint Building Authority amounted to \$119,789. The fees are based on a proration of space by unit for the building, which is 83% for the county and 17% for the City of Gaylord.

Fiscal Year Ends Other Than December 31, 2004

The financial information presented in this report is for the year ended December 31, 2004, except for the following funds:

<u>Fund</u>	<u>Fund Presentation</u>	<u>Fiscal Year End</u>
Commission on Aging	Blended--Special Revenue Fund	September 30, 2004
Bus System	Blended--Enterprise Fund	September 30, 2004

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Although the county 2004 ad valorem tax is levied and collectible on December 1, 2004, it is the county's policy to recognize revenue from the current tax levy in the subsequent year OR the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days). Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period.

The county reports the following major governmental funds:

The General Fund is the county's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Public Improvement Fund accounts for earmarked revenue set aside for statutory public improvements.

Housing Commission Fund accounts for grant revenue and contributions reserved for the improvement of housing with the county.

Revenue Sharing Reserve Fund accounts for recording of the operating millage to be levied in the summer.

The county reports the following major proprietary funds:

The Delinquent Tax Revolving Fund accounts for money, either advanced by a county or by the issuance of general obligation limited tax notes, to pay other taxing units and various county funds for their delinquent taxes.

Bus System Fund accounts for the operation of the public transportation system.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Additionally, the county reports the following fund types:

Internal Service Funds--These funds account for buildings and grounds, administrative services, and employee health benefits provided to other departments or agencies of the governmental unit on a cost reimbursement basis.

Agency Funds--These funds account for assets held on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The county has elected to consistently apply all applicable FASB pronouncements issued subsequent to November 30, 1989 in accounting and reporting for its proprietary operation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The exception to this rule is interfund activity between the primary government and its component units.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the delinquent tax fund, and the transit fund, are collection fees for delinquent taxes, and busing services, respectively. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the county's policy to use restricted resources first, then unrestricted resources as needed.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deposits and Investments

The cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value. Earnings from investments are allocated to numerous funds as required by Federal regulations, State statutes, and local ordinances.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

Inventories and Prepaid Items

Inventories are valued at cost, using the consumption method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories--Primary Government

General Fund--The inventory consists of postage and supplies on hand valued at cost in the amount of \$6,358 at December 31, 2004.

Commission on Aging--The inventory consists of food on hand at September 30, 2004 valued at cost in the amount of \$585.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Airport--The inventory at the airport consists of fuel on hand based on average cost with a value of \$34,471 at December 31, 2004.

Inventories--Component Units

Road Commission--Inventories consisting of equipment parts and supplies of \$135,407 and road materials of \$379,280 are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are recorded at average cost which approximates market.

Sportsplex--Inventory consist of items in the Pro Shop with a value of \$31,610.

Capital Assets--Primary Government

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 years
Bus Operating Facility	12 to 20 Years
Shop Equipment	3 to 10 years
Office Furniture and Equipment	3 to 10 years
Vehicles	3 to 7 years
Other Infrastructure	20 years

Capital Assets--Road Commission (Component Unit)

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, and similar items) are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Otsego County Road Commission as assets with an initial individual cost of more that \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation on Road Commission capital assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The deprecation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Compensated Absences (Vacation and Sick Leave)

It is the county's policy to permit employees to accumulate earned but unused sick for the library employees and vacation pay benefits for all of the employees. The liability for unpaid accumulated sick leave is only 50% of the time available according to the county's union contracts and personnel policies. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported only in governmental funds for employee terminations as of year end.

Long-Term Obligations

In the government-wide financial statements and proprietary fund type statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Cost Allocations

The Bus System has a cost allocation plan for all allocated expenses that are approved by the Michigan Department of Transportation, Bureau of Urban and Public Transportation. These allocated expenses include amounts charged to the program for time spent by accounting personnel in maintaining financial records of the program.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the following: assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Other Financing Sources (Uses)

The transfers of cash between the various county funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

Budgets are adopted by the county board of commissioners for the general and special revenue funds, except for the County Road Fund budget (special revenue--component unit), which is adopted and administered by the board of county road commissioners. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget document presents information by fund, function, department and line-items. The budget is adopted at the line-item level and control is exercised at the line-item level. The county board of commissioners monitors and amends the budgets as necessary.

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

The county has not complied with certain provisions of Public Act 2 of 1968, as amended. Expenditures were incurred in excess of amounts appropriated in the amended budgets for the activities or functions of the General Fund and special revenue funds are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
General Fund			
General Government			
Unshared Court Expenses	\$173,188	\$ 193,407	\$ (20,219)
Friend of the Court	812,556	1,020,500	(207,944)
FOC Medical Support		360	(360)
Probate Court	325,900	330,284	(4,384)
Family Counseling	2,900	5,545	(2,645)
Audit	30,000	39,906	(9,906)
IT Department	20,000	38,539	(18,539)
Equalization	237,729	238,661	(932)
MSU Extension	46,039	68,218	(22,179)
Prosecuting Attorney	457,760	460,215	(2,455)
Public Safety			
Sheriff	813,308	823,421	(10,113)
Motorcycle Safety	37,847	37,999	(152)
Emergency Services	47,158	71,528	(24,370)
Health and Welfare			
District Health	176,248	177,987	(1,739)
Other			
Bonds and Insurance		362,063	(362,063)
Retiree Insurance	143,453	144,112	(659)
Special Revenue Funds			
Park--Recreational and Cultural	338,573	375,227	(36,654)
Recreational and Cultural			
Animal Control Fund			
Public Safety		103	(103)
MTEC			
Community and Economic Development		651,939	(651,939)
Otsego Lake Maintenance			
Public Works		31	(31)
Animal Control Forfeited			
Public Safety		10	(10)
Gypsy Moth			
Health and Welfare		17,857	(17,857)
Transfers Out		1,000	(1,000)
Public Improvement			
General Government		18,983	(18,983)
Capital Outlay		194,516	(194,516)
Transfers Out	262,722	407,509	(144,787)

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

	<u>Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Special Revenue Funds (Continued)			
Register of Deeds Automation			
General Government		32,160	(32,160)
Budget Stabilization			
Transfers Out		85,000	(85,000)
Equipment			
Public Safety		9,344	(9,344)
Capital Outlay	35,422	141,288	(105,866)
Law Library			
General Government		10,218	(10,218)
Airport			
Public Works	563,353	692,035	(128,682)
Revenue Sharing Reserve			
Transfers Out		247,554	(247,554)
Department of Human Services			
Health and Welfare		276,513	(276,513)
Veterans' Trust			
Health and Welfare		3,082	(3,082)

Fund Deficits

As of December 31, 2004, a deficit existed in the unreserved fund balance and net assets of the following funds:

	<u>Fund Balance</u>	<u>Net Assets</u>
Special Revenue Fund		
Animal Control	\$ (103)	
Equipment Revolving	(9,920)	
Airport	(18,477)	
Veteran's Trust	(380)	
Capital Project Fund		
Building Authority	(27,165)	
Court Restoration	(7,050)	
Internal Service Fund		
Building and Grounds		\$ (130,100)

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH, CASH EQUIVALENT AND INVESTMENTS

Deposits are carried at cost. Deposits are in six financial institutions in the name of the Otsego County Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations, bonds, securities and other direct obligations of the United States; or any agency or instrumentality of the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. The county's deposits are in accordance with statutory authority.

Otsego County Board of Commissioners has designated six banks for the deposit of county funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 and includes all of the above investments.

At year end, the county's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash and Cash Equivalents	\$ 2,351,364	\$ 62,310	\$2,610,532	\$ 5,024,206	\$ 610,673
Investments	<u>2,847,967</u>	<u>3,395,374</u>	<u>2,084,028</u>	<u>8,327,369</u>	<u>1,330,273</u>
Total Deposits	<u>\$ 5,199,331</u>	<u>\$3,457,684</u>	<u>\$4,694,560</u>	<u>\$13,351,575</u>	<u>\$1,940,946</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 4,992,676	\$ 604,273
Investments in Securities, Mutual Funds and Similar Vehicles	8,327,369	1,330,273
Petty Cash and Cash on Hand	<u>31,530</u>	<u>6,400</u>
Total	<u>\$13,351,575</u>	<u>\$1,940,946</u>

The bank balance of the primary government's deposits is \$4,967,332, of which \$200,000 is covered by Federal depository insurance. The component units' deposits had a bank balance of \$612,075 of which \$110,882 was covered by Federal depository insurance.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

In accordance with GASB Statement No. 3, investments are classified into three categories of credit risk, however the county only has category 1 as follows:

Category 1: Insured or registered, or securities held by the county or its agents in Otsego County's name.

Nonrisk-Categorized Investments

The nature of mutual funds, insurance annuities, bond funds and equity pools do not allow for risk-categorization, which is in accordance with GASB Statement No. 3. The risk and nonrisk-categorized investments are carried at cost, which is also the fair value.

<u>PRIMARY GOVERNMENT</u>	<u>Category</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Risk-Categorized			
Government Bonds	(1)	\$ 897,750	\$ 897,750
Mortgage and Asset Backed Securities	(1)	<u>3,099,477</u>	<u>3,876,445</u>
Total Risk-Categorized			
Investments--Primary Government		<u>\$ 3,997,227</u>	<u>\$ 4,774,195</u>
Nonrisk-Categorized			
Money Market		\$ 3,311,573	\$ 2,759,772
Long-Term Certificates of Deposit		846,481	846,481
Michigan Municipal Risk			
Management Authority			
Retention Funds		<u>172,088</u>	<u>172,088</u>
Total Nonrisk-Categorized		<u>\$ 4,330,142</u>	<u>\$ 3,778,341</u>
Total Investments--Primary Government		<u>\$ 8,327,369</u>	<u>\$ 8,552,536</u>
<u>COMPONENT UNIT</u>			
Risk-Categorized			
Mortgage and Asset Backed Securities	(1)	<u>\$ 194,243</u>	<u>\$ 192,243</u>
Total Risk-Categorized			
Investments--Component Units		<u>\$ 194,243</u>	<u>\$ 192,243</u>
Nonrisk-Categorized			
Money Market		<u>\$ 1,136,030</u>	<u>\$ 1,117,111</u>
Total Nonrisk-Categorized		<u>\$ 1,136,030</u>	<u>\$ 1,117,111</u>
Total Investments--Component Unit		<u>\$ 1,330,273</u>	<u>\$ 1,309,354</u>
Total Cash and Investments--Reporting Entity		<u>\$ 15,292,519</u>	

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE D--PROPERTY TAXES

The county property tax is levied each December 1st based on the taxable valuation of property located in the county as of the preceding December 31st.

Although the county's 2004 ad valorem tax is levied and collectible on December 1, 2004, it is the county's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of county operations.

The 2004 taxable valuation of Otsego County amounted to \$1,083,027,404 on which ad valorem taxes of 4.0502 mills were levied for the County operating purposes, .3000 mill for Animal Control, 0.5900 mill for Commission on Aging, .1875 mill for Community Center, .0593 mill for County Parks, 0.2500 for the Bus System, .4000 mill for Library, .4000 for Ambulance, .6464 for M-TEC, .5569 for the University Center, .7860 mill for Sportsplex Construction, and 0.2948 for Sportsplex Operating (component unit).

The 2004 current tax levied included \$4,386,478 for County Operations, \$324,908 for Animal Control, \$638,986 for Commission on Aging, \$203,068 for Community Center, \$64,224 for County Parks, \$270,638 for the Bus System, \$433,211 for the Library, \$433,211 for the Ambulance, \$700,069 for M-TEC, \$603,138 for the University Center, \$851,260 for the Sportsplex Construction, and \$319,276 for Sportsplex Operating. These taxes will be recorded as revenue on county records in and for the year of 2004.

The taxes receivable is recorded in the financial statements as taxes receivable--current, with an offsetting credit to deferred revenue. The Commission on Aging Fund and the Bus System financial statements are for the fiscal year ended September 30, 2004 and accordingly, do not reflect the 2004 tax levy.

NOTE E--RECEIVABLES

Taxes Receivable--Delinquent

The taxes receivable--delinquent of \$1,335,007 recorded in the Delinquent Tax Revolving Fund consists of uncollected real property taxes levied prior to 2004. The delinquent real property taxes may be summarized as follows:

2003	\$1,056,413
2002	212,279
2001	18,547
2000	5,587
1999 and Prior	<u>42,181</u>
Total Delinquent Taxes Receivable	<u><u>\$ 1,335,007</u></u>

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE E--RECEIVABLES (Continued)

Receivables--Primary Government

The following amounts listed as accounts receivable in the primary government funds have been collected within 60 days after year end and are not offset by deferred revenue:

General Fund (Major Fund)		
Billings		\$ 33,412
Delinquent Tax Fund (Major Fund)		
Forfeiture Fee Receivable		3,487
Public Transit Fund (Major Fund)		
Billings		16,619
Special Revenue Funds (Non-Major Funds)		
Emergency 911 Fund		
Telephone Surcharges for December	\$ 2,515	
Equipment Revolving		
Billings	172	
Child Care Probate		
Reimbursements for December		
Airport Fund		
Billings	7,645	
Commission on Aging		
DEMO Grant	12,856	
Waiver Funding	2,077	
Private Pay--Otsego Haus	7,202	
HRSA	723	
Respite	86	
Total Special Revenue Funds		<u>33,276</u>
Total Primary Government Receivables		<u><u>\$ 86,794</u></u>

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE E--RECEIVABLES (Continued)

Receivables--Component Units

The receivables for the component units are presented in the financial statements as follows:

Road Commission		
Accounts Receivable		
Sundry		\$ 2,350
Ambulance		
Accounts Receivable		
Gross Patient Services Receivable	\$ 459,609	
Less Estimated Uncollectible (50%)	<u>(285,732)</u>	
Net Accounts Receivable		173,877
University Center		
Accounts Receivable		
Rental Payments		8,062
Sportsplex		
Accounts Receivable		
Rental and Advertising Receivable		<u>32,631</u>
Total		<u><u>\$ 216,920</u></u>

Loans Receivable--Housing Commission Fund (Major Fund)

The amount recorded as loans receivable is long-term mortgage notes in the Housing Commission Fund, consisting of grants and loans made to individuals pursuant to community development block grants received from the State of Michigan. Certain homes are secured with mortgages and grants with liens to qualified applicants. The mortgage interest rates vary from 0 to 3% and the grants with liens are payable upon transfer of title. The receivable is offset with deferred revenue, with revenue being recognized on a cash basis when collected. The loans were made for the purpose of repair, renovation or rehabilitation of residential buildings. At December 31, 2004, the total outstanding loans were \$1,541,036.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS

Primary Government

Capital asset activity of the primary government for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 401,154			\$ 401,154
Construction in Progress	301,386		\$ 301,386	-
Subtotal	702,540	\$ -	301,386	401,154
Capital Assets Being Depreciated				
Buildings	10,318,153	219,842	(301,386)	10,839,381
Furniture and Fixtures	146,642	-		146,642
Equipment				
Data Handling	752,991	340,503	-	1,093,494
Other Equipment	1,595,038	3,510		1,598,548
Commission on Aging	89,668	-		89,668
Vehicles	1,288,917	99,719		1,388,636
Infrastructure	5,143,780	-		5,143,780
Subtotal	19,335,189	663,574	(301,386)	20,300,149
Less Accumulated Depreciation for				
Buildings	3,432,232	429,823		3,862,055
Furniture and Fixtures	133,152	4,497		137,649
Equipment				
Data Handling	564,063	138,152		702,215
Other Equipment	615,940	108,835		724,775
Commission on Aging	52,826	10,572		63,398
Vehicles	844,395	137,236		981,631
Infrastructure	1,326,552	257,189		1,583,741
Subtotal	6,969,160	1,086,304	-	8,055,464
Net Capital Assets Being Depreciated	12,366,029	(422,730)	(301,386)	12,244,685
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$13,068,569</u>	<u>\$(422,730)</u>	<u>\$ -</u>	<u>\$12,645,839</u>

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Restatement to Capital Assets

The capital assets were reduced as the University Center is now being presented as a discrete component unit whose capital assets are being presented separately. The capital assets increased as the Commission on Aging recorded its capital assets to comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34. The net effect is as follows:

	<u>01/01/04</u>
Capital Assets Not Being Depreciated	<u>\$ 702,540</u>
Capital Assets Being Depreciated	
Beginning Balance	19,830,155
Less University Center	(584,634)
Plus Commission on Aging	<u>89,668</u>
Subtotal	<u>19,335,189</u>
Less: Accumulated Depreciation	
Beginning Balance	7,194,166
Less University Center	(277,832)
Plus Commission on Aging	<u>52,826</u>
Subtotal	<u>6,969,160</u>
Restated Net Capital Assets	
Being Depreciated	<u><u>\$13,068,569</u></u>

Depreciation expense was charged to programs of the primary government as follows:

	<u>Amount</u>
Governmental Activities	
General Government	\$ 326,761
Public Safety	180,660
Public Works	329,848
Health and Welfare	10,572
Recreation and Culture	<u>238,463</u>
Total Depreciation--Governmental Activities	<u><u>\$1,086,304</u></u>

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

<u>Business-Type Activities</u>	<u>01/01/04</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/04</u>
Capital Assets Not Being Depreciated				
Land	\$ 99,998			\$ 99,998
Subtotal	99,998	\$ -	\$ -	99,998
Capital Assets Being Depreciated				
Building	760,033			760,033
Vehicles	1,085,514	24,000		1,109,514
Equipment	695,446	270,017		965,463
Subtotal	2,540,993	294,017	-	2,835,010
Less: Accumulated Depreciation for				
Building	4,222	38,002		42,224
Vehicles	758,302	127,232		885,534
Equipment	533,190	46,189		579,379
Subtotal	1,295,714	211,423	-	1,507,137
Net Capital Assets Being Depreciated	1,245,279	82,594	-	1,327,873
Total Capital Assets--Net of Depreciation	<u>\$ 1,345,277</u>	<u>\$ 82,594</u>	<u>\$ -</u>	<u>\$ 1,427,871</u>

Depreciation expense was charged to business-type programs of the primary government as follows:

Business-Type Funds	
Delinquent Tax Revolving	\$ 4,183
UC Metropolitan Area Network	12,298
Bus System	192,507
Global Positioning System	2,435
Total Business-Type Funds	<u>\$211,423</u>

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Component Units

The following is a summary of changes in the capital assets for the Emergency Medical Services Corporation:

	<u>01/01/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/04</u>
Capital Assets Being Depreciated				
Buildings	\$ 725,000			\$ 725,000
Other Equipment	285,000	\$107,388		392,388
Vehicles	818,364			818,364
Subtotal	<u>1,828,364</u>	<u>107,388</u>	<u>\$ -</u>	<u>1,935,752</u>
Less: Accumulated Depreciation				
Buildings	203,000	29,000		232,000
Other Equipment	285,000	21,478		306,478
Vehicles	515,943	89,531		605,474
Subtotal	<u>1,003,943</u>	<u>140,009</u>	<u>-</u>	<u>1,143,952</u>
Net Capital Assets Being Depreciated	<u>\$ 824,421</u>	<u>\$ (32,621)</u>	<u>\$ -</u>	<u>\$ 791,800</u>

Depreciation expense for the year was \$140,009.

The following is a summary of changes in the capital assets for the University Center:

	<u>01/01/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/04</u>
Capital Assets Being Depreciated				
Buildings	\$ 9,908	\$ 3,000		\$ 12,908
Leasehold Improvements	24,854			24,854
Furniture and Fixtures	156,544	42,397		198,941
Data Handling Equipment	393,328	66,761	\$33,264	426,825
Subtotal	<u>584,634</u>	<u>112,158</u>	<u>33,264</u>	<u>663,528</u>
Less: Accumulated Depreciation				
Buildings		516		516
Leasehold Improvements	3,334	4,971		8,305
Furniture and Fixtures	62,618	33,005		95,623
Data Handling Equipment	211,880	141,710	33,264	320,326
Subtotal	<u>277,832</u>	<u>180,202</u>	<u>33,264</u>	<u>424,770</u>
Net Capital Assets Being Depreciated	<u>\$306,802</u>	<u>\$(68,044)</u>	<u>\$ -</u>	<u>\$238,758</u>

Depreciation expense for the year was \$180,202.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

The following is a summary of changes in the capital assets for the Road Commission:

	Balance 01/01/04	Additions	Deductions	Balance 12/31/04
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 150,600	\$ 4,371		\$ 154,971
Subtotal	150,600	4,371	\$ -	154,971
Capital Assets Being Depreciated				
Buildings	2,553,124	442,446		2,995,570
Road Equipment	4,707,536	496,022	251,625	4,951,933
Shop Equipment	105,578	6,060	1,795	109,843
Office Equipment	76,876	998		77,874
Engineers Equipment	15,846			15,846
Yard and Storage Equipment	1,800			1,800
Depletable Assets	4,760			4,760
Traffic Signals	44,756			44,756
Infrastructure--Bridges	805,533			805,533
Infrastructure--Roads	19,861,863	1,429,530		21,291,393
Total	28,177,672	2,375,056	253,420	30,299,308
Less: Accumulated Depreciation				
Buildings	814,586	56,409		870,995
Road Equipment	3,597,942	436,783	228,137	3,806,588
Shop Equipment	74,390	8,668	1,795	81,263
Office Equipment	59,776	4,792		64,568
Engineers Equipment	15,606	152		15,758
Yard and Storage Equipment	1,800			1,800
Traffic Signals	5,173	2,984		8,157
Infrastructure--Bridges	125,369	27,922		153,291
Infrastructure--Roads	9,654,557	1,758,948		11,413,505
Total	14,349,199	2,296,658	229,932	16,415,925
Net Capital Assets Being Depreciated	13,828,473	78,398	23,488	13,883,383
Total Net Capital Assets	\$ 13,979,073	\$ 82,769	\$ 23,488	\$ 14,038,354

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE G--INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS

The amounts of the interfund receivables and payables between funds of the primary government are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Primary Government			
General	\$ 273,250	General	\$ 38,765
Nonmajor Governmental Funds	107,225	Revenue Sharing Reserve	247,554
Internal Service Funds	19,370	Nonmajor Governmental Funds	45,066
		Agency Funds	68,460
Total Primary Government	<u>\$ 399,845</u>		<u>\$ 399,845</u>
Primary Government		Component Unit	
General	<u>\$ 3,904</u>	Ambulance	<u>\$ 3,904</u>
Total Primary Government	<u>\$ 3,904</u>	Total Component Unit	<u>\$ 3,904</u>

The long-term advances to other funds, which represent long-term interfund receivables and payables that are not available to finance current operations, are as follows:

<u>Fund</u>	<u>Advances to Other Funds</u>	<u>Fund</u>	<u>Advances From Other Funds</u>
Primary Government			
Public Improvement	<u>\$250,000</u>	Bus System	<u>\$250,000</u>
Total Primary Government	<u>\$250,000</u>		<u>\$250,000</u>
<u>Primary Government and Discrete Component Units</u>			
Primary Government		Component Unit	
General	<u>\$ 66,114</u>	Ambulance	<u>\$ 66,114</u>
Total Primary Government	<u>\$ 66,114</u>	Total Component Unit	<u>\$ 66,114</u>

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE G--INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS

(Continued)

The 2004 operating transfers from Exhibits D, F and K can be summarized as follows:

<u>Primary Government</u>	<u>Transfers In</u>		<u>Transfers (Out)</u>
General	\$ 619,854	General	\$ 513,054
Nonmajor Governmental	1,278,593	Public Improvement	407,509
Nonmajor Enterprise	20,101	Revenue Sharing Reserve	247,554
Internal Service	302,970	Nonmajor Governmental	123,300
		Nonmajor Enterprise	5,101
		Delinquent Tax Revolving	925,000
Total Primary Government	<u>2,221,518</u>		<u>2,221,518</u>
<u>Primary Government</u>		<u>Component Unit</u>	
Nonmajor Governmental	817,992	University Center	241,288
		Sportsplex	576,704
Total Primary Government Unit	<u>817,992</u>	Total Component Unit	<u>817,992</u>
Total Reporting Entity	<u>\$ 3,039,510</u>		<u>\$ 3,039,510</u>

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE H--LONG-TERM DEBT

The long-term debt and other long-term obligations of the county's governmental funds, and the changes therein, may be summarized as follows:

<u>LONG-TERM DEBT</u>	<u>Balances 01/01/04</u>	<u>Additions (Reductions)</u>	<u>Balances 12/31/04</u>	<u>Due Within One Year</u>
Otsego County Building Authority Series 1991 Bonds, (Alpine Center Project) maturing serially through 2012 in annual amounts ranging from \$15,000 to \$95,000 and at interest rates ranging from 7% to 9.5%.	\$ 605,000	\$ (45,000)	\$ 560,000	\$ 45,000
Otsego County Building Authority Series 1994-1 Bonds, maturing serially through 2014 in annual amounts ranging from \$20,000 to \$60,000 and at interest rates ranging from 4.1% to 6.3%.	470,000	(30,000)	440,000	35,000
Otsego County Building Authority Series 1995 Bonds, maturing serially through 2006 in annual amounts ranging from \$290,000 to \$565,000 and at interest rates ranging from 4.7% to 5.5%.	1,560,000	(475,000)	1,085,000	520,000
Otsego County Building Authority Series 1995-A Bonds, maturing serially through 2005 in annual amounts ranging from \$10,000 to \$50,000 and at interest rates ranging from 4.05% to 5.90%.	25,000	(15,000)	10,000	10,000
Otsego County Building Authority Series 2000 Bonds, maturing serially through 2020 in annual amounts ranging from \$75,000 to \$250,000 and at interest rates from 5% to 5.5%.	2,750,000	(100,000)	2,650,000	100,000
Vested Employee Benefits Payable	<u>189,862</u>	<u>(27,395)</u>	<u>162,467</u>	
Total Long-Term Debt	<u>\$ 5,599,862</u>	<u>\$ (692,395)</u>	<u>\$ 4,907,467</u>	<u>\$ 710,000</u>

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE H--LONG-TERM DEBT (Continued)

Discretely Presented Component Units

The following is a summary of pertinent information concerning the Road Commission's changes in long-term debt:

	<u>Balances</u> <u>01/01/04</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balances</u> <u>12/31/04</u>	<u>Due Within</u> <u>One Year</u>
Lease Purchase--Equipment	\$ 51,111	\$ (51,111)	-	
Installment Purchase Agreement		228,073		
		(30,128)	\$197,945	\$ 74,721
Compensated Absences	<u>55,908</u>	<u>5,471</u>	<u>61,379</u>	
Total Long-Term Debt Road Commission	<u>\$ 107,019</u>	<u>\$152,305</u>	<u>\$259,324</u>	<u>\$ 74,721</u>

The following is a summary of pertinent information concerning the Ambulance Corporation's changes in long-term debt:

	<u>Balances</u> <u>01/01/04</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balances</u> <u>12/31/04</u>	<u>Due Within</u> <u>One Year</u>
Capital Lease--2000 Ambulance	\$ 10,027	\$ (10,027)	-	
Capital Lease--2000 Ambulance	52,881	(32,812)	\$ 20,069	\$ 20,069
Capital Lease--2001 Scott SCBA	2,997	(2,997)	-	
Note Payable--2002 1st National Bank	81,063	(20,690)	60,373	23,485
Capital Lease--2003 Ambulance	73,810	(16,458)	57,352	16,145
Capital Lease--Zoll Equipment		92,244		
		(8,764)	83,480	20,663
Total Long-Term Debt Ambulance Corporation	<u>220,778</u>	<u>496</u>	<u>221,274</u>	<u>80,362</u>
Total Long-Term Debt Component Units	<u>327,797</u>	<u>152,801</u>	<u>480,598</u>	<u>155,083</u>
Total Long-Term Debt Reporting Entity	<u>\$ 5,927,659</u>	<u>\$ (539,594)</u>	<u>\$ 5,388,065</u>	<u>\$ 865,083</u>

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE H--LONG-TERM DEBT (Continued)

Annual Principal and Interest Requirements--Primary Government

The annual requirements to pay the principal and interest on primary government of the county's direct long-term debt obligations outstanding at December 31, 2004 are as follows:

Otsego County Building Authority--1991 Series Bonds

Date of Issue: August 1, 1991

Amount: \$900,000

Purpose: The bonds were issued to remodel and equip a part of the Alpine Center to be used for facilities for the Otsego County Mental Health Department and the Otsego County Family Independence Agency. The bonds were issued under the provisions of Act 31 of 1948, as amended, and a Limited Tax Full Faith and Credit General Obligation Lease Contract between the County and the Authority. The lease provides that the County make cash rental payments to the Authority in amounts sufficient to pay principal and interest on bonds as they become due. Bonds mature serially 1991 through 2012 in annual amounts ranging from \$15,000 to 95,000, and at interest rates ranging from 7% to 9.50%. Principal and interest are payable semi-annually on April 1st and October 1st.

<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Annual Maturity April 1</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
6.7%	2005	\$ 45,000	\$ 37,392	\$ 82,392
6.80	2006	55,000	34,015	89,015
6.90	2007	55,000	30,248	85,248
7.00	2008	60,000	26,250	86,250
7.00	2009	80,000	21,350	101,350
7.00	2010	85,000	15,575	100,575
7.00	2011	85,000	9,625	94,625
7.00	2012	95,000	3,325	98,325
Total		<u>\$560,000</u>	<u>\$177,780</u>	<u>\$737,780</u>

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE H--LONG-TERM DEBT (Continued)

Otsego County Building Authority--1994-1 Series Bonds

Date of Issue: October 1, 1994

Amount: \$680,000

Purpose: The project consists of the remodeling, constructing, furnishing and/or equipping of the 4th floor, new elevators and a parking lot for the Alpine Center.

<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Annual Maturity April 1</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
5.70%	09/01/05	\$ 35,000	\$ 26,880	\$ 61,880
5.86	09/01/06	30,000	24,885	54,885
6.00	09/01/07	35,000	23,130	58,130
6.00	09/01/08	40,000	21,030	61,030
6.10	09/01/09	40,000	18,630	58,630
6.10	09/01/10	45,000	16,190	61,190
6.20	09/01/11	50,000	13,445	63,445
6.20	09/01/12	50,000	10,345	60,345
6.30	09/01/13	55,000	7,245	62,245
6.30	09/01/14	60,000	3,780	63,780
Total		<u>\$440,000</u>	<u>\$165,560</u>	<u>\$605,560</u>

Otsego County Building Authority--1995 Series Bonds

Date of Issue: January 1, 1995

Amount: \$4,450,000

Purpose: The project consists of acquiring and/or constructing, furnishing, and equipping a recreational and sports complex which would include an indoor ice skating rink and swimming pool.

<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Annual Maturity September 1</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
5.40%	09/01/05	\$ 520,000	\$ 59,155	\$ 579,155
5.50	09/01/06	565,000	31,075	596,075
Total		<u>\$ 1,085,000</u>	<u>\$ 90,230</u>	<u>\$ 1,175,230</u>

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE H--LONG-TERM DEBT (Continued)

Otsego County Building Authority--1995-A Series Bonds

Date of Issue: November 1, 1995

Amount: \$325,000

Purpose: The project consists of acquiring and/or constructing, furnishing, and equipping a recreational and sports complex which would include an indoor ice skating rink and swimming pool.

<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Annual Maturity September 1</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
4.90%	09/01/05	<u>\$ 10,000</u>	<u>\$ 490</u>	<u>\$ 10,490</u>
Total		<u><u>\$ 10,000</u></u>	<u><u>\$ 490</u></u>	<u><u>\$ 10,490</u></u>

Otsego County Building Authority--2000 Series Bonds

Date of Issue: August 1, 2000

Amount: \$3,000,000

Purpose: To finance and construct the county's portion of the cost of the University Center.

<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Annual Principal May 1</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
5.00%	05/01/05	\$ 100,000	\$ 136,013	\$ 236,013
5.10	05/01/06	100,000	130,963	230,963
5.10	05/01/07	125,000	125,225	250,225
5.10	05/01/08	125,000	118,850	243,850
5.10	05/01/09	125,000	112,475	237,475
5.10	2010-2014	775,000	453,999	1,228,999
5.2-5.45	2015-2019	1,050,000	214,154	1,264,154
5.50	2020	<u>250,000</u>	<u>6,875</u>	<u>256,875</u>
Total		<u><u>\$ 2,650,000</u></u>	<u><u>\$ 1,298,554</u></u>	<u><u>\$ 3,948,554</u></u>

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE H--LONG-TERM DEBT (Continued)

Annual Principal and Interest Requirements--Road Commission--Component Unit

The annual requirements to pay the principal and interest on the Road Commission's direct long-term debt obligations outstanding at December 31, 2004, are as follows:

The Road Commission entered into an installment loan agreement with Fifth Third Bank for the purchase of three International Trucks on July 6, 2004. The initial debt was \$228,073 with interest accruing at 2.92%. The lease agreement requires 36 payments of \$6,624.60 per month with the final payment due on July 6, 2007.

Annual debt service requirements:

<u>Date of Maturity</u>	<u>Annual Principal</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
2005	\$ 74,721	\$4,774	\$ 79,495
2006	76,932	2,563	79,495
2007	<u>46,292</u>	<u>81</u>	<u>46,373</u>
Total	<u>\$197,945</u>	<u>\$7,418</u>	<u>\$205,363</u>

Annual Principal and Interest Requirements--Ambulance Corporation--Component Unit

The annual requirements to pay the principal and interest on the Ambulance's direct long-term debt obligations outstanding at December 31, 2004 are as follows:

Date: July 24, 2000

Amount: \$152,000

Purpose: Finance a heavy-duty rescue truck at 6.0% through Ford Motor Credit.

<u>Year</u>	<u>Annual Principal Payments</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
2005	<u>\$ 20,069</u>	<u>\$ 404</u>	<u>\$20,473</u>
Total	<u>\$ 20,069</u>	<u>\$ 404</u>	<u>\$20,473</u>

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE H--LONG-TERM DEBT (Continued)

Lease/Purchase Agreement--2002 Ambulance

Start Date: April 2002

Original Amount: \$115,000

Purpose: Finance lease/purchase one 2002 ambulance. Requires 60 monthly payments of \$2,128.94 at an implied interest rate of 4.150% payable to First National Bank of Gaylord.

<u>Year</u>	<u>Annual Principal Payments</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
2005	\$ 23,485	\$ 2,062	\$ 25,547
2006	24,478	1,069	25,547
2007	<u>12,410</u>	<u>148</u>	<u>12,558</u>
Total	<u>\$ 60,373</u>	<u>\$ 3,279</u>	<u>\$ 63,652</u>

Lease/Purchase Agreement--2003 Ambulance

Start Date: April 2003

Original Amount: \$82,321

Purpose: Finance lease/purchase one 2003 ambulance. Requires 59 monthly payments of \$1,557.28 at an implied interest rate of 5.1% payable to Fifth Third Bank.

<u>Year</u>	<u>Annual Principal Payments</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
2005	\$ 16,145	\$ 2,541	\$ 18,686
2006	16,989	1,698	18,687
2007	17,875	812	18,687
2008	<u>6,343</u>	<u>65</u>	<u>6,408</u>
Total	<u>\$ 57,352</u>	<u>\$ 5,116</u>	<u>\$ 62,468</u>

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE H--LONG-TERM DEBT (Continued)

Lease/Purchase Agreement--Zoll Equipment

Start Date: September 2004

Original Amount: \$92,244

Purpose: Finance lease/purchase Zoll Equipment. Requires 48 monthly payments of \$2,278.99 at an implied interest rate of 9.0139% payable to Kansas State Bank.

<u>Year</u>	<u>Annual Principal Payments</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
2005	\$ 20,663	\$ 6,685	\$27,348
2006	22,604	4,743	27,347
2007	24,728	2,618	27,346
2008	<u>15,485</u>	<u>469</u>	<u>15,954</u>
Total	<u>\$ 83,480</u>	<u>\$ 14,515</u>	<u>\$97,995</u>

NOTE I--COMPENSATED ABSENCES

Vested Employee Benefits Payable

The county has an accrued liability for accumulated vested vacation, compensatory time and sick leave benefits payable for its employees. As of December 31, 2004, the accumulated vested vacation, compensatory time and sick leave benefits of the employees of various county departments were as follows:

Vested Employee Benefits Payable--Primary Government

	<u>Vacation 12/31/04</u>	<u>Sick 12/31/04</u>	<u>Compensatory 12/31/04</u>	<u>Total</u>
Vested Employee Benefits Payable				
County General Employees	\$47,042		\$ 8,016	\$ 55,058
Court Employees	42,563	\$14,335		56,898
Library	3,676	39,262		42,938
Emergency 911	3,805		1,880	5,685
Housing Commission	<u>1,888</u>	<u></u>	<u></u>	<u>1,888</u>
Total Vested Employee Benefits Payable	<u>\$98,974</u>	<u>\$53,597</u>	<u>\$ 9,896</u>	<u>\$162,467</u>

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE I--COMPENSATED ABSENCES (Continued)

Substantially all county employees are entitled to certain vacation and sick pay benefits that accrue and vest under various parameters. The amounts depend upon which labor contract the employee is subject to or upon which department or fund the employee is within. Accrued benefits for all governmental fund types are reported as long-term debt.

Vested Employee Benefits Payable--Bus System (Enterprise Fund)

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available on the anniversary date of the employee.

Sick leave is earned at the beginning of the calendar year at a rate of 56 hours per full-time employee per year. Any unused sick leave is paid to the employee on the closest pay period to Christmas. There is no carry over of sick leave hours allowed.

Upon termination, an employee receives payment for the balance of any unused vacation leave which was credited on the employee's anniversary date. Employees can carry over a maximum of 40 hours of vacation leave to the next year. Unused sick leave is paid upon termination. Therefore, accumulated vacation and sick leave at September 30, 2004 will be paid from current financial resources and is not recorded as a long-term liability.

Road Commission--Component Unit

Substantially all employees of the Road Commission can accumulate vacation hours. The accumulated hours at December 31, 2004, at current wage rates, amounted to \$61,379 and is reflected as a long-term liability. Sick leave is not vested and, accordingly, is not accrued.

NOTE J--OPERATING LEASES

Primary Government Operating Leases

Commission on Aging--The Commission on Aging has an operating lease with Ricoh for the use of a copier. The monthly payment is \$375, with the lease agreement effective through April, 2006. Future lease obligations for the copier are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Amount</u>
2005	\$ 4,500
2006	1,500

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE J--OPERATING LEASES (Continued)

The Commission on Aging entered into a sublease with Northwest Michigan Community Health Agency to rent the space commonly known as "Otsego Haus." The sublease terms beginning January 1, 2001 calls for monthly payments of \$1,620 or \$19,440 annually, and is renewable each year.

The Commission on Aging leases office and activity space from Alpine Alten Zimmer. The rent payment totals \$10,200 per year, and is renewable annually.

The Commission on Aging leases the Elkland Senior Center for both programmatic and social events. The rent payments total \$6,600 per year, and is renewable annually.

NOTE K--EMPLOYEES' RETIREMENT SYSTEM

PRIMARY GOVERNMENT

Description of Plan and Plan Assets

Otsego County is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement for General Non-Union, Sheriff Non-Union, General-Local 1534 and Elected Officials is computed using credited service at the time of termination of membership multiplied by the sum of 2% times the final average compensation (FAC). The service requirement for General-Local 214 is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% of (FAC), with a maximum benefit of 80% of FAC. The service requirement for Elected and Appointed Supervisors, 46th Trial Court and the Sheriff-Union is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% of (FAC), with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2003.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851; MCL 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE K--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Funding Policy

Elected officials contribute 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. No other groups are required to contribute a percentage of their annual compensation. The county's pension contributions of covered payroll for the period ending December 31, 2003 were 7.06% for General Non-Union, 6.50% for Sheriff Non-Union, 8.21% for General Local 214, 7.18% for General Local 1534, 13.36% for Elected/Appointed Supervisors and 9.26 % for Sheriff Union, respectively.

If a member leaves the employ of the municipality or dies, without a retirement allowance or other benefit payable on his account, the member's accumulated contributions (with 5% interest) are refunded to the member, if living, or to the member's beneficiary.

Annual Pension Cost

During the calendar year ended December 31, 2003, the county's contributions totaled \$680,432 and the employee contributions totaled \$0; these contributions were made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2001, and personnel agreement. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended 12/31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	\$ 313,463	100%	\$0
2002	684,352	100%	\$0
2003	680,432	100%	\$0

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE K--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/01	\$ 6,912,361	\$ 9,617,600	\$2,705,239	72%	\$ 4,903,398	55%
12/31/02	7,736,658	11,517,180	3,780,522	67%	5,382,956	70%
12/31/03	8,862,940	13,282,225	4,419,285	67%	5,579,432	79%

Road Commission--Component Unit

Plan Description

The Otsego County Road Commission participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees' Retirement System of Michigan (MERS) is a multi-employer statewide public employees retirement plan created by the State of Michigan to provide retirement, survivor and disability in the most efficient and effective manner possible. As such, MERS is a non-profit entity qualified under section 401 (a) of the Internal Revenue Code, which has the responsibility of administering the law in accordance with the expressed intent of the legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

Public Act 220 of 1996, allowed members to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

All full-time Road Commission employees are eligible to participate in the system. Benefits vest after 10 years of service. Employees who retire at or after age 60 with 10 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.0% of the member's 5 year final average compensation. The system also provides death and disability benefits which are established by State statute.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE K--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Actuarial Accrued Liability

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2003. Significant actuarial assumptions used include a long-term investment yield rate of 8%; projected salary increases of 4.5% per year compounded annually, attributable to inflation; and on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2003 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

GASB Statement No. 25 Information (as of December 31, 2003)

Actuarial Accrued Liability	
Retirees and Beneficiaries Currently	
Receiving Benefits	\$ 3,370,963
Terminated Employees Not Yet Receiving	
Benefits	100,805
Current Employees	
Accumulated Employee Contributions	
Including Allocated Investment Income	68,949
Employer Financed	<u>3,242,742</u>
Total Actuarial Accrued Liability	6,783,459
Net Assets Available for Benefits, at Actuarial	
Value (Market Value: \$5,016,335)	<u>5,493,694</u>
Unfunded (Overfunded) Actuarial Accrued Liability	<u><u>\$ 1,289,765</u></u>

GASB Statement No. 27 Information (as December 31, 2003)

Fiscal Year Beginning	January 1, 2005
Annual Required Contribution (ARC)	\$195,468
Amortization Factor Used	0.053632

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE K--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2003 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

Annual Pension Cost

<u>Year Ended December 31</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	\$109,152	100%	\$0
2002	169,068	100%	\$0
2003	195,468	100%	\$0

The Road Commission was required to contribute \$196,936 for the year ended December 31, 2004. Payments were based on contribution calculations made by MERS.

Aggregate Accrued Liabilities--Comparative Schedule

<u>Actuarial Valuation Date December 31</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
2001	\$ 5,319,357	\$ 5,570,544	\$ 251,187	95%	\$ 1,421,351	18%
2002	5,304,571	6,320,484	1,015,913	84%	1,492,215	68%
2003	5,493,694	6,783,459	1,289,765	81%	1,568,776	82%

For the actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value. Appraisal assumptions for MERS valuations were revised for the 1993, 1997, 2000 and 2002 valuations.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE L--POST-EMPLOYMENT BENEFITS

Primary Government

Otsego County has agreed to pay \$200 per month toward hospitalization insurance for all employees and their spouses under the Sheriff-Union Agreement until the retiree reaches the eligible Medicare age. Otsego County will assume responsibility for payment of health insurance premiums for retired Otsego County employees, covered under the AFSCME agreement, receiving pension benefits and participating in the county sponsored health plan when they reach age 65. All other primary government employees of Otsego County do not receive post-employment benefits. The county does offer employees that leave employment with the county the option of prepaying the insurance premiums for health insurance. At December 31, 2004, there were 29 employees covered under the agreements for a cost of \$164,529. The county pays the insurance coverage premiums on a pay-as-you-go-basis.

Component Unit

The Road Commission, in addition to the pension benefits described in the pension Note K, provides post-retirement health care benefits. The Road Commission pays Blue Cross health premiums on a pay-as-you-go-basis for 25 people who have retired from the Road Commission. The premiums for the retirees amounted to \$209,586 for the year ended December 31, 2004.

NOTE M--DEFERRED COMPENSATION PLAN

Primary Government

Otsego County offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. Effective January 1, 1997, the assets of the plan were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian for the exclusive benefit of the participants and beneficiaries of these Section 457 plans and the assets may not be diverted to any other use. The administrator (Nationwide Retirement Solutions) is an agent of the employer. The administrator provides direction to the custodian, from time to time, regarding the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the county's financial statements.

Commission on Aging

The Otsego County Commission on Aging offers its employees a deferred compensation plan created in accordance with the IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current earnings until the employee's termination, retirement, death or unforeseeable emergency.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE M--DEFERRED COMPENSATION PLAN (Continued)

The Commission's liability to each participant is equal to the participant's deferred compensation adjusted by an amount equal to the investment performance in a related asset account. Investments are managed by a trustee, and investment decisions are made by individual employees. The Commission, through Otsego County, provides the duty of due care that would be required of an ordinary prudent investor.

The plan assets totaled \$167,885 as of September 30, 2004.

Component Unit--Road Commission

The Otsego County Road Commission offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all Road Commission employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until terminations, retirement, death or unforeseeable emergency.

In the past, the Road Commission was custodian of the assets of the plan and therefore recorded the plan's activity in a trust fund in accordance with Statement No. 2 of the Government Accounting Standards Board (GASB). With the implementation of GASB Statement No. 32 and the Road Commission transferring custodianship of the plan to an independent party, balances for the deferred compensation plan are no longer reported in the financial statements.

Component Unit--Sportsplex

The Otsego County Sportsplex offers its employees a Savings Incentive Match Plan for Employees (SIMPLE plan) Individual Retirement Account (IRA) in accordance with IRC Section 408(p). The plan, available to Sportsplex employees earning at least \$5,000 in annual compensation, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until terminations, retirement, death or unforeseeable emergency. The employer matches employee contributions up to 3% of the employees elected salary contribution.

NOTE N--RISK MANAGEMENT/SELF-INSURANCE PROGRAMS

PRIMARY GOVERNMENT

The county is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE N--RISK MANAGEMENT/SELF-INSURANCE PROGRAMS (Continued)

The county participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage and property damage coverages. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan, which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund using premiums paid into it by other funds of the government. Such contributions as received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the member retention fund are used for loss payments and defense costs up to the members self-insurance retention limits along with certain other member-specific costs.

Accordingly, because contributions to the member retention fund are essentially recognized as revenue by MMRMA to the extent of expenditures, the government records an asset and a related liability, equal to the loss reserves estimated by MMRMA, for its portion of the unexpended member retention fund in the Michigan Municipal Risk Agency Fund. At December 31, 2004, the balance of the county's member retention was \$172,088.

<u>Coverage</u>	<u>Self-Insured Retention</u>
Liability	\$75,000
Vehicle Physical Damage	\$15,000 Per Vehicle
\$1,000 Member Deductible	\$30,000 Per Occurrence
Property and Crime	
\$1,000 Deductible Per Occurrence	10% of the Next \$100,000
Employee Benefits	Commercial Insurance Provider

Workers' Compensation

The county is a member of the Michigan Counties Workers' Compensation Fund. Full statutory coverage for workers' disability compensation and employers' liability is guaranteed by the fund for Michigan operations through authority granted by the State of Michigan under Chapter 6, Section 418.611, Paragraph (2) of the Workers' Disability Compensation Act of 1969, as amended.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE N--RISK MANAGEMENT/SELF-INSURANCE PROGRAMS (Continued)

At December 31, 2004, there were no claims that exceeded insurance coverage. The county had no significant reduction in insurance coverage from previous years.

Bus System--The Bus System is included in the county's insurance policies.

Commission on Aging--The Commission on Aging has insurance coverage provided by independent insurance companies for property, general liability, fire, workers' compensation and employee bond coverage. The Commission on Aging liability is normally limited to the deductible.

Component Unit--Road Commission

Otsego County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool) established pursuant to the laws of the State of Michigan, which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protections, claims administration and risk management, and loss control services pursuant to Public Act 138 of 1982.

The Otsego County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for workers' compensation and is a member of the County Road Association Self-Insurance Fund.

At December 31, 2004, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years.

Component Unit--Ambulance Corporation

The Ambulance Corporation is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Ambulance's general liability, property and vehicle insurance is included in the county's plan. Additional vehicle insurance, health insurance and workers' compensation is obtained through commercial insurance providers.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE N--RISK MANAGEMENT/SELF-INSURANCE PROGRAMS (Continued)

At December 31, 2004, there were no claims that exceeded insurance coverage. The Ambulance Corporation had no significant reduction in insurance coverage from previous years.

Component Unit--Sportsplex

The Sportsplex is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Sportsplex's general liability and property insurance is included in the county's plan. Health insurance and workers' compensation is obtained through commercial insurance providers. At December 31, 2004, there were no claims that exceeded insurance coverage. The Sportsplex had no significant reduction in insurance coverage from previous years.

NOTE O--FEDERAL FINANCIAL ASSISTANCE

Road Commission--Component Unit

It is required by the Michigan Department of Transportation that road commissioners report total Federal financial assistance for highway research, planning and construction pertaining to their county. However, only the Federal financial assistance applicable to negotiated account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by the Michigan Department of Transportation.

The Federal revenue of \$386,610 represents the Department of Transportation Federal Highway grant money expended on public road improvement projects where work was performed by independent contractors or under non-negotiated contracts between the Road Commission and the Michigan Department of Transportation.

NOTE P--STATE EQUIPMENT PURCHASE ADVANCE

Road Commission--Component Unit

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

COUNTY OF OTSEGO

NOTES TO FINANCIAL STATEMENTS

NOTE Q--RESTATEMENT OF NET ASSETS/FUND BALANCE

During the year ended December 31, 2003, the University Center was recorded as a blended component unit and included in the governmental activities in the Statement of Net Assets and Statement of Activities. It was also recorded as a Non-Major Governmental Fund in the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance. The University Center as described in Note A should have been recorded as a discrete component unit and has been reclassified.

Also, the Commission on Aging has implemented Governmental Accounting Standards Board (GASB) Statement No. 34 during the current fiscal year. The result is that the capital asset activity of the Commission on Aging will now be included in the Statement of Net Assets and Statement of Activities with a restatement to net assets to record the beginning balance of the capital assets.

	<u>Governmental Activities</u>	<u>Component Units</u>
From Exhibit B		
Net Assets--January 1, 2004	\$15,161,594	\$ 16,827,842
University Center	(700,541)	700,541
Commission on Aging	<u>36,842</u>	<u></u>
Restated Net Assets--January 1, 2004	<u>\$14,497,895</u>	<u>\$ 17,528,383</u>
	<u>Nonmajor Governmental</u>	
From Exhibit D		
Fund Balance--January 1, 2004	\$3,190,617	
University Center	<u>(393,739)</u>	
Restated Net Assets--January 1, 2004	<u>\$2,796,878</u>	

OTSEGO COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2004

EXHIBIT L

	BUDGETED AMOUNTS			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Revenues				
Taxes and Penalties	\$ 4,201,687	\$ 4,201,687	\$ 4,191,674	\$ (10,013)
Licenses and Permits	92,700	98,700	100,269	1,569
Federal Grants	985,345	1,009,345	786,507	(222,838)
State Grants	739,715	683,744	876,790	193,046
Contributions From Local Units	2,218,856	2,228,311	2,216,197	(12,114)
Charges for Services	1,208,603	1,208,603	1,093,250	(115,353)
Fines and Forfeits	69,503	69,503	50,689	(18,814)
Interest and Rentals	60,500	60,500	41,247	(19,253)
Other Revenue	164,947	175,772	50,969	(124,803)
Total Revenues	9,741,856	9,736,165	9,407,592	(328,573)
Expenditures				
Current				
General Government	6,237,326	6,362,275	6,375,501	(13,226)
Public Safety	1,875,296	2,132,523	2,096,203	36,320
Public Works	2,500	2,500	2,350	150
Health and Welfare	435,792	429,961	402,805	27,156
Community and Economic Development	314,523	320,613	176,526	144,087
Recreation and Cultural	1,000	1,000	1,000	-
Other	222,453	227,453	550,149	(322,696)
Total Expenditures	9,088,890	9,476,325	9,604,534	(128,209)
Excess of Revenues Over (Under) Expenditures	652,966	259,840	(196,942)	(456,782)
Other Financing Sources (Uses)				
Interfund Transfers In--Primary Government	12,600	97,600	619,854	522,254
Interfund Transfers (Out)	(668,566)	(670,706)	(513,054)	157,652
Total Other Financing Sources (Uses)	(655,966)	(573,106)	106,800	679,906
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(3,000)	(313,266)	(90,142)	223,124
Fund Balance--January 1, 2004	3,000	217,298	322,589	105,291
Fund Balance--December 31, 2004	\$ -	\$ (95,968)	\$ 232,447	\$ 328,415

OTSEGO COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
PUBLIC IMPROVEMENT--MAJOR SPECIAL REVENUE FUND
For the Year Ended December 31, 2004

EXHIBIT M

	<u>BUDGETED AMOUNTS</u>			Variance With
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
Revenues				
State Grants			\$ 48,871	\$ 48,871
Contributions From Local Units			8,010	8,010
Charges for Services			44,983	44,983
Interest and Rentals			6,791	6,791
Other Revenue			4,398	4,398
Total Revenues	\$ -	\$ -	113,053	113,053
Expenditures				
Current				
General Government			18,983	(18,983)
Capital Outlay			194,516	(194,516)
Total Expenditures	-	-	213,499	(213,499)
Excess of Revenues Over (Under) Expenditures	-	-	(100,446)	(100,446)
Other Financing Sources (Uses)				
Interfund Transfers In--Primary Government				-
Interfund Transfers (Out)--Primary Government		(262,722)	(407,509)	(144,787)
Total Other Financing Sources (Uses)	-	(262,722)	(407,509)	(144,787)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	(262,722)	(507,955)	(245,233)
Fund Balance--January 1, 2004			2,239,240	2,239,240
Fund Balance--December 31, 2004	\$ -	\$ (262,722)	\$ 1,731,285	\$ 1,994,007

OTSEGO COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
HOUSING COMMISSION--MAJOR SPECIAL REVENUE FUND
For the Year Ended December 31, 2004

EXHIBIT N

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Federal Grants	\$ 220,000	\$ 220,000	\$ 55,844	\$ (164,156)
Contributions From Local Units	40,000	40,000	3,890	(36,110)
Interest and Rentals	8,300	8,300	6,312	(1,988)
Other Revenue	49,300	49,300	114,890	65,590
Total Revenues	<u>317,600</u>	<u>317,600</u>	<u>180,936</u>	<u>(136,664)</u>
Expenditures				
Community and Economic Development	309,128	324,128	130,200	193,928
Total Expenditures	<u>309,128</u>	<u>324,128</u>	<u>130,200</u>	<u>193,928</u>
Excess of Revenues Over (Under) Expenditures	<u>8,472</u>	<u>(6,528)</u>	<u>50,736</u>	<u>57,264</u>
Fund Balance--January 1, 2004	<u>-</u>	<u>-</u>	<u>188,313</u>	<u>188,313</u>
Fund Balance--December 31, 2004	<u>\$ 8,472</u>	<u>\$ (6,528)</u>	<u>\$ 239,049</u>	<u>\$ 245,577</u>

OTSEGO COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
REVENUE SHARING RESERVE--MAJOR SPECIAL REVENUE FUND
For the Year Ended December 31, 2004

EXHIBIT O

	<u>BUDGETED AMOUNTS</u>			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Revenues				
Taxes			\$ 1,462,159	\$ 1,462,159
Total Revenues	\$ -	\$ -	1,462,159	1,462,159
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under) Expenditures	-	-	1,462,159	1,462,159
Other Financing Sources (Uses)				
Interfund Transfers (Out)			(247,554)	(247,554)
Total Other Financing Sources (Uses)	-	-	(247,554)	(247,554)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	1,214,605	1,214,605
Fund Balance--January 1, 2004	-	-	-	-
Fund Balance--December 31, 2004	\$ -	\$ -	\$ 1,214,605	\$ 1,214,605

OTSEGO COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
December 31, 2004

EXHIBIT P

	SPECIAL REVENUE FUNDS										
	Parks and Recreation	M-TEC	Friend of the Court	Otsego Lake Maintenance	Animal Control	Animal Control Forfeited Funds	Gypsy Moth Control	Building Department	Economic Development Fund	Register of Deeds Automation Fund	Budget Stabilization Fund
<u>ASSETS</u>											
Cash	\$ 48,456	\$ 5,702	\$ 17,913	\$ 1,634	\$ (292)	\$ 3,022	\$ 3,794	\$ 108,905		\$ 11,240	\$ 154,602
Investments	30,278	3,564	11,199	1,022	(183)	1,890	148,054	67,927		7,027	96,652
Taxes Receivable	266,946	699,932			324,803						
Accounts Receivable											
Due From State of Michigan			20,269								
Due From Other Funds	6,100		26,619								
Due From Other Governmental Units			23,187								
Inventory											
Prepaid Expense					475			725			
Total Assets	\$ 351,780	\$ 709,198	\$ 99,187	\$ 2,656	\$ 324,803	\$ 4,912	\$ 151,848	\$ 177,557	\$ -	\$ 18,267	\$ 251,254
<u>LIABILITIES AND FUND BALANCES</u>											
Accounts Payable	\$ 3,491		\$ 526		\$ 103			\$ 216		\$ 225	
Due to Other Funds	5,585		3,090								
Due to State											
Due to Other Governmental Units			61,473								
Accrued Liabilities	3,471		1,614					8,709			
Advances From State											
Deferred Revenue	266,946	\$ 699,932			324,803						
Total Liabilities	279,493	699,932	66,703	\$ -	324,906	\$ -	\$ -	8,925	\$ -	225	\$ -
Fund Balances											
Reserved for											
Inventory											
Schneider Trust											
Donations											
Debt Service											
Capital Expenditures											
Designated for "Otsego Haus" Operations											
Unreserved--Undesignated	72,287	9,266	32,484	2,656	(103)	4,912	151,848	168,632		18,042	251,254
Total Fund Balances	72,287	9,266	32,484	2,656	(103)	4,912	151,848	168,632	-	18,042	251,254
Total Liabilities and Fund Balances	\$ 351,780	\$ 709,198	\$ 99,187	\$ 2,656	\$ 324,803	\$ 4,912	\$ 151,848	\$ 177,557	\$ -	\$ 18,267	\$ 251,254

**OTSEGO COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
December 31, 2004**

**EXHIBIT P
(CONTINUED)**

SPECIAL REVENUE FUNDS

	Legal Defense	Victim Impact Panel	Emergency 911 Funds	Local Officers Training	Drug Law Enforcement Fund	Law Library	Library	Social Welfare FIA	Child Care Probate	Soldiers and Sailors Relief	Veterans Trust	Commission on Aging 09/30/04
<u>ASSETS</u>												
Cash	\$ 146,359	\$ 912	\$ 60,846	\$ 1,335	\$ 425	\$ 9,432	\$ 95,270	\$ 26,239	\$ 83,923	\$ 3,202	\$ (234)	\$ 177,169
Investments	91,498	570	176,964	835	265	5,896	532,604	8,901	52,466	2,002	(146)	49,516
Taxes Receivable							433,109					
Accounts Receivable			2,515									22,944
Due From State of Michigan			23,256					25,642				
Due From Other Funds							74,506					
Due From Other Governmental Units												
Inventory												585
Prepaid Expense			1,968									
Total Assets	\$ 237,857	\$ 1,482	\$ 265,549	\$ 2,170	\$ 690	\$ 15,328	\$ 1,135,489	\$ 60,782	\$ 136,389	\$ 5,204	\$ (380)	\$ 250,214
<u>LIABILITIES AND FUND BALANCES</u>												
Accounts Payable	\$ 1,787		\$ 22	\$ 75		\$ 648	\$ 29,619		\$ 12,143			
Due to Other Funds			8,453				27,938					
Due to State									21,535			
Due to Other Governmental Units												
Accrued Liabilities			8,560				6,046					\$ 20,581
Advances From State								\$ 50,000				
Deferred Revenue							433,109					
Total Liabilities	1,787	\$ -	17,035	75	\$ -	648	496,712	50,000	33,678	\$ -	\$ -	20,581
Fund Balances												
Reserved for												
Inventory												585
Schneider Trust												49,516
Donations								5,059				
Debt Service												
Capital Expenditures												
Designated for "Otsego Haus" Operations												61,523
Unreserved--Undesignated	236,070	1,482	248,514	2,095	690	14,680	638,777	5,723	102,711	5,204	(380)	118,009
Total Fund Balances	236,070	1,482	248,514	2,095	690	14,680	638,777	10,782	102,711	5,204	(380)	229,633
Total Liabilities and Fund Balances	\$ 237,857	\$ 1,482	\$ 265,549	\$ 2,170	\$ 690	\$ 15,328	\$ 1,135,489	\$ 60,782	\$ 136,389	\$ 5,204	\$ (380)	\$ 250,214

OTSEGO COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
December 31, 2004

EXHIBIT P
(CONTINUED)

	SPECIAL REVENUE FUNDS			DEBT SERVICE FUND	CAPITAL PROJECT FUNDS							
	Airport	Bradford Lake	Equipment Revolving	Building Authority Refunding Debt	MUNIS Information System	Animal Shelter Building Construction	Building Authority	Criminal Justice Building	Library Building	Airport Construction	Court Restoration Building	Total
ASSETS												
Cash	\$ (12,199)	\$ 11,351	\$ 9,730	-	\$ 34,879	\$ 4,065		\$ 59,234	\$ 18,263		\$ (4,338)	\$ 1,080,839
Investments	(7,751)	7,096	6,083	\$ 81,102	21,806	2,542	\$ (27,165)	85,593	204,385	\$ 96,227	(2,712)	1,756,007
Taxes Receivable												1,724,790
Accounts Receivable	7,645		172									33,276
Due From State of Michigan				7,618								76,785
Due From Other Funds												107,225
Due From Other Governmental Units												23,187
Inventory	34,471											35,056
Prepaid Expense												3,168
Total Assets	\$ 22,166	\$ 18,447	\$ 15,985	\$ 88,720	\$ 56,685	\$ 6,607	\$ (27,165)	\$ 144,827	\$ 222,648	\$ 96,227	\$ (7,050)	\$ 4,840,333
LIABILITIES AND FUND BALANCES												
Accounts Payable	\$ 214		\$ 25,905		\$ 1,883							\$ 76,857
Due to Other Funds												45,066
Due to State												21,535
Due to Other Governmental Units												61,473
Accrued Liabilities	5,958											54,939
Advances From State												50,000
Deferred Revenue												1,724,790
Total Liabilities	6,172	\$ -	25,905	\$ -	1,883	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	2,034,660
Fund Balances												
Reserved for												
Inventory	34,471											35,056
Schneider Trust												49,516
Donations												5,059
Debt Service				88,720								88,720
Capital Expenditures					54,802	6,607	(27,165)	144,827	222,648	96,227	(7,050)	490,896
Designated for "Otsego Haus" Operations												61,523
Unreserved--Undesignated	(18,477)	18,447	(9,920)									2,074,903
Total Fund Balances	15,994	18,447	(9,920)	88,720	54,802	6,607	(27,165)	144,827	222,648	96,227	(7,050)	2,805,673
Total Liabilities and Fund Balances	\$ 22,166	\$ 18,447	\$ 15,985	\$ 88,720	\$ 56,685	\$ 6,607	\$ (27,165)	\$ 144,827	\$ 222,648	\$ 96,227	\$ (7,050)	\$ 4,840,333

OTSEGO COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2004

EXHIBIT Q

SPECIAL REVENUE FUNDS											
	Parks and Recreation	M-TEC	Friend of the Court	Otsego Lake Maintenance	Animal Control	Animal Control Forfeited Funds	Gypsy Moth Control	Building Department	Economic Development Fund	Register of Deeds Automation Fund	Budget Stabilization Fund
Revenues											
Taxes	\$ 251,010	\$ 658,091									
Licenses and Permits								\$ 493,220			
Federal Grants			\$ 82,865				\$ 16,384				
State Grants			2,470								
Contributions From Local Units			41,592								
Charges for Services	145,460		5,452					663		\$ 36,717	
Fines and Forfeits											
Interest and Rentals	1,677			\$ 26			(647)	1,878		268	\$ 9,650
Other	675		37				8,516	(577)			
Total Revenues	398,822	658,091	132,416	26	\$ -	\$ -	24,253	495,184	\$ -	36,985	9,650
Expenditures											
General Government			170,923							32,160	
Public Safety					103	10		534,792			
Public Works				31							
Health and Welfare							17,857				
Community and Economic Development		651,939							74,828		
Recreation and Cultural	375,227										
Other											
Capital Outlay											
Principal											
Interest and Fees											
Total Expenditures	375,227	651,939	170,923	31	103	10	17,857	534,792	74,828	32,160	-
Excess of Revenue Over (Under)											
Expenditures	23,595	6,152	(38,507)	(5)	(103)	(10)	6,396	(39,608)	(74,828)	4,825	9,650
Other Financing Sources (Uses)											
Interfund Transfers In--Primary Government											
Interfund Transfers In--Component Unit											
Interfund Transfers (Out)--Primary Government							(1,000)				(85,000)
Total Other Financing Sources (Uses)	-	-	-	-	-	-	(1,000)	-	-	-	(85,000)
Excess of Revenues and Other Sources Over (Under)											
Expenditures and Other Uses	23,595	6,152	(38,507)	(5)	(103)	(10)	5,396	(39,608)	(74,828)	4,825	(75,350)
Fund Balance--January 1, 2004	48,692	3,114	70,991	2,661	-	4,922	146,452	208,240	74,828	13,217	326,604
Fund Balance--December 31, 2004	\$ 72,287	\$ 9,266	\$ 32,484	\$ 2,656	\$ (103)	\$ 4,912	\$ 151,848	\$ 168,632	\$ -	\$ 18,042	\$ 251,254

OTSEGO COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2004

EXHIBIT Q
(CONTINUED)

	SPECIAL REVENUE FUNDS											
	Legal Defense	Victim Impact Panel	Emergency 911 Funds	Local Officers Training	Drug Law Enforcement Fund	Law Library	Library	Social Welfare FIA	Child Care Probate	Soldiers and Sailors Relief	Veterans Trust	Commission on Aging 09/30/04
Revenues												
Taxes							\$ 400,382					\$ 595,437
Licenses and Permits												
Federal Grants												160,776
State Grants			\$ 2,310				25,695		\$ 154,289		\$ 471	69,562
Contributions From Local Units												
Charges for Services			490,421	\$ 2,170			37,923					91,441
Fines and Forfeits						\$ 3,500	191,069					
Interest and Rentals			1,883				3,495	\$ 73				5,114
Other		\$ 220					11,561	274,702	36,887		1,396	161,373
Total Revenues	\$ -	220	494,614	\$ 2,170	\$ -	3,500	670,125	274,775	191,176	\$ -	1,867	1,083,703
Expenditures												
General Government	113,930					10,218						
Public Safety			445,201	75								
Public Works												
Health and Welfare								276,513	531,637	1,526	3,082	1,127,831
Community and Economic Development												
Recreation and Cultural							574,959					
Other												
Capital Outlay							32,912					
Principal												
Interest and Fees												
Total Expenditures	113,930	-	445,201	75	-	10,218	607,871	276,513	531,637	1,526	3,082	1,127,831
Excess of Revenue Over (Under)												
Expenditures	(113,930)	220	49,413	2,095	-	(6,718)	62,254	(1,738)	(340,461)	(1,526)	(1,215)	(44,128)
Other Financing Sources (Uses)												
Interfund Transfers In--Primary Government	350,000					5,000			325,000	5,000		
Interfund Transfers In--Component Unit												
Interfund Transfers (Out)--Primary Government			(17,300)				(20,000)					
Total Other Financing Sources (Uses)	350,000	-	(17,300)	-	-	5,000	(20,000)	-	325,000	5,000	-	-
Excess of Revenues and Other Sources Over (Under)												
Expenditures and Other Uses	236,070	220	32,113	2,095	-	(1,718)	42,254	(1,738)	(15,461)	3,474	(1,215)	(44,128)
Fund Balance--January 1, 2004	-	1,262	216,401	-	690	16,398	596,523	12,520	118,172	1,730	835	273,761
Fund Balance--December 31, 2004	\$ 236,070	\$ 1,482	\$ 248,514	\$ 2,095	\$ 690	\$ 14,680	\$ 638,777	\$ 10,782	\$ 102,711	\$ 5,204	\$ (380)	\$ 229,633

OTSEGO COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2004

EXHIBIT Q
(CONTINUED)

	SPECIAL REVENUE FUNDS			DEBT SERVICE FUND	CAPITAL PROJECT FUNDS							
	Airport	Bradford Lake	Equipment Revolving	Building Authority Refunding Debt	MUNIS Information System	Animal Shelter	Building Authority	Criminal Justice Building	Library Building	Airport Construction	Court Restoration Building	Total
Revenues												
Taxes												\$ 1,904,920
Licenses and Permits												493,220
Federal Grants												260,025
State Grants												254,797
Contributions From Local Units												41,592
Charges for Services	\$ 475,401											1,285,648
Fines and Forfeits												194,569
Interest and Rentals	82,992	\$ 186	\$ 1,099	\$ 100,009		\$ 82	\$ 106	\$ (1,439)	\$ 1,936	\$ 390		208,778
Other	14,884		47,093									556,767
Total Revenues	573,277	186	48,192	100,009	\$ -	82	106	(1,439)	1,936	390	\$ -	5,200,316
Expenditures												
General Government			9,344		70,054		8,742	23			6,750	422,144
Public Safety						231						980,412
Public Works	692,035									2,830		694,896
Health and Welfare												1,958,446
Community and Economic Development												726,767
Recreation and Cultural												950,186
Other												-
Capital Outlay			141,288		137,866		20,905				136,087	469,058
Principal				665,000								665,000
Interest and Fees				297,897								297,897
Total Expenditures	692,035	-	150,632	962,897	207,920	231	29,647	23	-	2,830	142,837	7,164,806
Excess of Revenue Over (Under)												
Expenditures	(118,758)	186	(102,440)	(862,888)	(207,920)	(149)	(29,541)	(1,462)	1,936	(2,440)	(142,837)	(1,964,490)
Other Financing Sources (Uses)												
Interfund Transfers In--Primary Government	98,806		71,278	822,992	262,722				20,000		135,787	2,096,585
Interfund Transfers In--Component Unit												-
Interfund Transfers (Out)--Primary Government												(123,300)
Total Other Financing Sources (Uses)	98,806	-	71,278	822,992	262,722	-	-	-	20,000	-	135,787	1,973,285
Excess of Revenues and Other Sources Over (Under)												
Expenditures and Other Uses	(19,952)	186	(31,162)	(39,896)	54,802	(149)	(29,541)	(1,462)	21,936	(2,440)	(7,050)	8,795
Fund Balance--January 1, 2004	35,946	18,261	21,242	128,616	-	6,756	2,376	146,289	200,712	98,667	-	2,796,878
Fund Balance--December 31, 2004	\$ 15,994	\$ 18,447	\$ (9,920)	\$ 88,720	\$ 54,802	\$ 6,607	\$ (27,165)	\$ 144,827	\$ 222,648	\$ 96,227	\$ (7,050)	\$ 2,805,673

OTSEGO COUNTY
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR ENTERPRISE FUNDS
December 31, 2004

EXHIBIT R

	Global Positioning System Fund	University Center Metropolitan Area Network	Plat Book Fund	Jail Commissary	Total Non-Major Funds
<u>ASSETS</u>					
Current Assets					
Cash and Cash Equivalents	\$ 28,667	\$ 6,691		\$ 11,135	\$ 46,493
Investments	17,921	4,184		6,962	29,067
Total Current Assets	46,588	10,875	\$ -	18,097	75,560
Noncurrent Assets					
Capital Assets, Net of Accumulated Depreciation	2,384	233,671			236,055
Total Noncurrent Assets	2,384	233,671			236,055
Total Assets	<u>\$ 48,972</u>	<u>\$ 244,546</u>	<u>\$ -</u>	<u>\$ 18,097</u>	<u>\$ 311,615</u>
<u>LIABILITIES</u>					
Current Liabilities					
Accounts Payable	\$ 700	\$ 2,450			\$ 3,150
Total Current Liabilities	700	2,450	\$ -	\$ -	3,150
Total Liabilities	700	2,450	-	-	3,150
<u>NET ASSETS</u>					
Invested in Capital Assets, Net of Related Debt	2,384	233,671			236,055
Unrestricted	45,888	8,425	-	18,097	72,410
Total Net Assets	<u>\$ 48,272</u>	<u>\$ 242,096</u>	<u>\$ -</u>	<u>\$ 18,097</u>	<u>\$ 308,465</u>

OTSEGO COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS--NON-MAJOR ENTERPRISE FUNDS
For the Year Ended December 31, 2004

EXHIBIT S

	Global Positioning System Fund	University Center Metropolitan Area Network	Plat Book Fund	Jail Commissary	Total Non-Major Enterprise Funds
Operating Revenues					
Charges for Services	\$ 7,300	\$ 12,000		\$ 20,205	\$ 39,505
Total Operating Revenues	7,300	12,000	\$ -	20,205	39,505
Operating Expenses					
Contractual Services	15,763				15,763
Materials and Supplies	5,259	2,746	-	20,971	28,976
Equipment Repair and Maintenance	2,967				2,967
Depreciation	2,435	12,298			14,733
Total Operating Expenses	26,424	15,044	-	20,971	62,439
Operating Income (Loss)	(19,124)	(3,044)	-	(766)	(22,934)
Income (Loss) Before Contributions and Transfers	(19,124)	(3,044)	-	(766)	(22,934)
Capital Contributions					
Contributions From Other Units		195,140			195,140
Other Donations		50,000			50,000
Interfund Transfers					
Transfers In	20,101				20,101
Transfers (Out)			(5,101)		(5,101)
Change in Net Assets	977	242,096	(5,101)	(766)	237,206
Total Net Assets--January 1, 2004	47,295	-	5,101	18,863	71,259
Total Net Assets--December 31, 2004	\$ 48,272	\$ 242,096	\$ -	\$ 18,097	\$ 308,465

OTSEGO COUNTY
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR ENTERPRISE FUNDS
For the Year Ended December 31, 2004

EXHIBIT T

	Global Positioning System Fund	University Center Metropolitan Area Network	Plat Book Fund	Jail Commissary	Total Enterprise Funds
Cash Flows From Operating Activities					
Cash Received From Customers	\$ 7,300	\$ 12,000		\$ 20,205	\$ 39,505
Cash Payments to Suppliers for Goods and Services	(23,289)	(296)	-	(21,349)	(44,934)
Net Cash Provided by Operating Activities	(15,989)	11,704	\$ -	(1,144)	(5,429)
Cash Flows From Noncapital Financing Activities					
Transfers In (Out)	20,101		(5,101)		15,000
Net Cash Provided by Noncapital Financing Activities	20,101	-	(5,101)	-	15,000
Cash Flows From Capital and Related Financing Activities					
Contributions From Other Units		195,140			195,140
Other Donations		50,000			50,000
Capital Assets Purchased		(245,969)			(245,969)
Net Cash Provided by Capital and Related Financing Activities	-	(829)	-	-	(829)
Cash Flows From Investing Activities					
Sale or (Purchase) of Investments	5,317	(4,184)		3,564	4,697
Net Cash Provided by Investing Activities	5,317	(4,184)	-	3,564	4,697
Net Increase (Decrease) in Cash and Cash Equivalents	9,429	6,691	(5,101)	2,420	13,439
Cash and Cash Equivalents at Beginning of Year	19,238		5,101	8,715	33,054
Cash and Cash Equivalents at End of Year	\$ 28,667	\$ 6,691	\$ -	\$ 11,135	\$ 46,493
Reconciliation of Operating Income to Net Cash Provided by Operating Activities					
Operating Income (Loss)	\$ (19,124)	\$ (3,044)	-	\$ (766)	\$ (22,934)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities					
Depreciation Expense	2,435	12,298			14,733
Increase (Decrease) in Accounts Payable	700	2,450		(378)	2,772
Net Cash Provided by Operating Activities	\$ (15,989)	\$ 11,704	\$ -	\$ (1,144)	\$ (5,429)

OTSEGO COUNTY
STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
December 31, 2004

EXHIBIT U

	Building and Grounds	Administrative Services	Health Care	Total Internal Service Funds
<u>ASSETS</u>				
Current Assets				
Cash and Cash Equivalents	\$ (70,233)	\$ (4,355)	\$ 275,928	\$ 201,340
Investments	(43,908)	(2,722)	172,502	125,872
Due From State	4,687			4,687
Due From Other Funds		13,975	5,395	19,370
Inventory		325		325
Total Current Assets	(109,454)	7,223	453,825	351,594
Total Noncurrent Assets	-	-	-	-
Total Assets	<u>\$ (109,454)</u>	<u>\$ 7,223</u>	<u>\$ 453,825</u>	<u>\$ 351,594</u>
<u>LIABILITIES</u>				
Current Liabilities				
Accounts Payable	\$ 16,878	\$ 298	\$ 10,275	\$ 27,451
Accrued Liabilities	3,768	5,550		9,318
Total Current Liabilities	20,646	5,848	10,275	36,769
Total Noncurrent Liabilities	-	-	-	-
Total Liabilities	<u>20,646</u>	<u>5,848</u>	<u>10,275</u>	<u>36,769</u>
<u>NET ASSETS</u>				
Unrestricted	(130,100)	1,375	443,550	314,825
Total Net Assets	<u>\$ (130,100)</u>	<u>\$ 1,375</u>	<u>\$ 443,550</u>	<u>\$ 314,825</u>

OTSEGO COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS--INTERNAL SERVICE FUNDS
For the Year Ended December 31, 2004

EXHIBIT V

	Building and Grounds	Administrative Services	Health Care	Total Internal Service Funds
Operating Revenues				
Charges for Services	\$ 178,093	\$ 287,997		\$ 466,090
Other			\$ 404,587	404,587
Total Operating Revenues	178,093	287,997	404,587	870,677
Operating Expenses				
General Government	311,163	286,622		597,785
Other			261,037	261,037
Total Operating Expenses	311,163	286,622	261,037	858,822
Operating Income (Loss)	(133,070)	1,375	143,550	11,855
Income (Loss) Before Contributions and Transfers	(133,070)	1,375	143,550	11,855
Interfund Transfers				
Transfers In	2,970		300,000	302,970
Change in Net Assets	(130,100)	1,375	443,550	314,825
Total Net Assets--January 1, 2004	-	-	-	-
Total Net Assets--December 31, 2004	\$ (130,100)	\$ 1,375	\$ 443,550	\$ 314,825

OTSEGO COUNTY
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR INTERNAL SERVICE FUNDS
For the Year Ended December 31, 2004

EXHIBIT W

	Building and Grounds	Administrative Services	Health Care	Total Internal Service Funds
Cash Flows From Operating Activities				
Cash Received From Customers	\$ 173,406	\$ 274,022	\$ 399,192	\$ 846,620
Cash Payments to Employees for Services and Benefits	(131,504)	(266,616)		(398,120)
Cash Payments to Suppliers for Goods and Services	(159,013)	(14,483)	(250,762)	(424,258)
Net Cash Provided by Operating Activities	(117,111)	(7,077)	148,430	24,242
Cash Flows From Noncapital Financing Activities				
Transfers In (Out)	2,970		300,000	302,970
Net Cash Provided by Noncapital Financing Activities	2,970	-	300,000	302,970
Cash Flows From Investing Activities				
Sale or (Purchase) of Investments	43,908	2,722	(172,502)	(125,872)
Net Cash Provided by Investing Activities	43,908	2,722	(172,502)	(125,872)
Net Increase (Decrease) in Cash and Cash Equivalents	(70,233)	(4,355)	275,928	201,340
Cash and Cash Equivalents at Beginning of Year	-	-	-	-
Cash and Cash Equivalents at End of Year	\$ (70,233)	\$ (4,355)	\$ 275,928	\$ 201,340
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating Income (Loss)	\$ (133,070)	\$ 1,375	\$ 143,550	\$ 11,855
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
(Increase) Decrease in Receivables	(4,687)	(13,975)	(5,395)	(24,057)
(Increase) in Inventory		(325)		(325)
Increase (Decrease) in Accounts Payable	16,878	298	10,275	27,451
Increase (Decrease) in Accrued Wages Payable	3,768	5,550		9,318
Net Cash Provided by Operating Activities	\$ (117,111)	\$ (7,077)	\$ 148,430	\$ 24,242

OTSEGO COUNTY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
December 31, 2004

EXHIBIT X

	AGENCY FUNDS				EMPLOYEE BENEFIT TRUST FUND	
	General Agency	Payroll Imprest	Library (Penal Fines) Fund	Michigan Municipal Risk	Court Employee Retiree Health	Total
<u>ASSETS</u>						
Cash	\$ 2,451,238	\$159,294	\$42,125			\$2,652,657
Investments	1,532,436	99,585	26,335	\$172,088	\$279,919	2,110,363
Total Assets	<u>\$ 3,983,674</u>	<u>\$258,879</u>	<u>\$68,460</u>	<u>\$172,088</u>	<u>\$279,919</u>	<u>4,763,020</u>
<u>LIABILITIES AND FUND BALANCE</u>						
Liabilities						
Due to Other Funds			\$68,460			\$68,460
Due to State of Michigan	\$3,060,246	\$927				3,061,173
Due to Federal Government		22,499				22,499
Due to Cities		24				24
Undistributed Tax Collections	847,175					847,175
Bonds Restitutions and Payable to Individuals	73,924					73,924
Other Trust Payable	2,329					2,329
Other Payroll Liabilities		235,429				235,429
Premium Deposits				\$172,088		172,088
Total Liabilities	<u>3,983,674</u>	<u>258,879</u>	<u>68,460</u>	<u>172,088</u>	<u>\$-</u>	<u>4,483,101</u>
Fund Balances						
Unreserved						
Designated for Purposes of Trust					279,919	279,919
Total Fund Balances					<u>279,919</u>	<u>279,919</u>
Total Liabilities and Fund Balances	<u>\$3,983,674</u>	<u>\$258,879</u>	<u>\$68,460</u>	<u>\$172,088</u>	<u>\$279,919</u>	<u>\$4,763,020</u>

OTSEGO COUNTY
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES--AGENCY FUNDS
For the Year Ended December 31, 2004

EXHIBIT Y

	Balance 01/01/04	Additions	Deductions	Balance 12/31/04
<u>GENERAL AGENCY FUND</u>				
Assets				
Cash	\$ 537,204	\$ 11,099,348	\$ 9,185,314	\$ 2,451,238
Investments	648,882	883,554		1,532,436
Total Assets	<u>\$1,186,086</u>	<u>\$ 11,982,902</u>	<u>\$ 9,185,314</u>	<u>\$ 3,983,674</u>
Liabilities				
Due to State of Michigan	\$ 750,406	\$ 7,352,696	\$ 5,042,856	\$ 3,060,246
Undistributed Tax Collections	347,223	3,871,218	3,371,266	847,175
Bonds Restitutions and Payable to Individuals	73,012	188,036	187,124	73,924
Other Trust Payable	15,445	570,952	584,068	2,329
Total Liabilities	<u>\$1,186,086</u>	<u>\$ 11,982,902</u>	<u>\$ 9,185,314</u>	<u>\$ 3,983,674</u>
<u>PAYROLL IMPREST FUND</u>				
Assets				
Cash		\$ 2,327,766	\$ 2,168,472	\$ 159,294
Investments		99,585		99,585
Total Assets	<u>\$ -</u>	<u>\$ 2,427,351</u>	<u>\$ 2,168,472</u>	<u>\$ 258,879</u>
Liabilities				
Due to State of Michigan		\$ 152,852	\$ 151,925	\$ 927
Due to Federal Government		942,795	920,296	22,499
Due to Cities		2,073	2,049	24
Other Payroll Liabilities		2,222,659	1,987,230	235,429
Total Liabilities	<u>\$ -</u>	<u>\$ 3,320,379</u>	<u>\$ 3,061,500</u>	<u>\$ 258,879</u>
<u>LIBRARY (PENAL FINES) FUND</u>				
Assets				
Cash	\$ 30,943	\$ 169,575	\$ 158,393	\$ 42,125
Investments	37,377		11,042	26,335
Total Assets	<u>\$ 68,320</u>	<u>\$ 169,575</u>	<u>\$ 169,435</u>	<u>\$ 68,460</u>
Liabilities				
Due to Other Funds	\$ 68,320	\$ 169,575	\$ 169,435	\$ 68,460
Total Liabilities	<u>\$ 68,320</u>	<u>\$ 169,575</u>	<u>\$ 169,435</u>	<u>\$ 68,460</u>
<u>MICHIGAN MUNICIPAL RISK</u>				
Assets				
Investments	\$ 79,368	\$ 92,720		\$ 172,088
Total Assets	<u>\$ 79,368</u>	<u>\$ 92,720</u>	<u>\$ -</u>	<u>\$ 172,088</u>
Liabilities				
Premium Deposits	\$ 79,368	\$ 92,720		\$ 172,088
Total Liabilities	<u>\$ 79,368</u>	<u>\$ 92,720</u>	<u>\$ -</u>	<u>\$ 172,088</u>

OTSEGO COUNTY
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2004

EXHIBIT Z

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Taxes and Penalties				
Current Real Property Taxes	\$ 4,117,290	\$ 4,117,290	\$ 3,676,113	\$ (441,177)
Delinquent Real Property Taxes	-	-	393,295	393,295
Delinquent Personal Property Taxes	-	-	41,436	41,436
Trailer Tax	1,700	1,700	1,652	(48)
Penalties and Interest	700	700	885	185
Payment-In-Lieu of Taxes	81,997	81,997	78,293	(3,704)
Total Taxes and Penalties	4,201,687	4,201,687	4,191,674	(10,013)
Licenses and Permits				
Sheriff Licenses--Permits	7,500	7,500	9,698	2,198
Marriage Licenses	3,900	3,900	5,570	1,670
Dog Licenses	34,700	34,700	35,811	1,111
Zoning Permits	27,500	27,500	23,750	(3,750)
Pistol Permits	4,700	4,700	6,871	2,171
Erosion Control	14,000	20,000	18,569	(1,431)
Trailer Permit	400	400	-	(400)
Total Licenses and Permits	92,700	98,700	100,269	1,569
Federal Grants				
Hazardous Materials	-	24,000	1,353	(22,647)
State Homeland Security	-	-	26,020	26,020
Community Emergency Response Team	-	-	8,336	8,336
Citizen Corp. Grant	-	-	2,263	2,263
Emergency Services	10,000	10,000	10,496	496
Time Out	83,077	83,077	77,737	(5,340)
CRP--Friend of the Court	719,831	719,831	469,569	(250,262)
CRP--Prosecuting Attorney	27,973	27,973	27,973	-
ADC Incentive	-	-	60,438	60,438
Medical Incentive	-	-	17,714	17,714
JAIBG Grant	144,464	144,464	84,608	(59,856)
Total Federal Grants	985,345	1,009,345	786,507	(222,838)
State Grants				
Probate Judge Salary	-	-	109,931	109,931
Probate Judge Supplement	-	-	45,724	45,724
Circuit Judge Salary	-	-	41,715	41,715
District Judge Salary	-	-	20,363	20,363
CRP--Friend of the Court	-	-	29,131	29,131
CRP--Prosecuting Attorney	42,846	42,846	2,153	(40,693)
Court Equity	-	-	164,109	164,109
Justice Training Grant	-	-	1,800	1,800
Motorcycle Safety Grant	39,704	39,704	39,275	(429)
Secondary Road Patrol	67,586	7,321	61,125	53,804
Court Funding--Jury Fee	-	-	8,561	8,561
Crime Victims Rights	34,000	34,000	34,000	-
JAIBG Grant	-	-	9,399	9,399
Cigarette Tax	12,128	12,128	13,400	1,272
Convention Facilities Liquor Tax	131,237	135,531	135,531	-
Voters Registration	500	500	380	(120)
State Revenue Sharing	411,714	411,714	160,193	(251,521)
Total State Grants	739,715	683,744	876,790	193,046

OTSEGO COUNTY
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2004

EXHIBIT Z
(CONTINUED)

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Contributions From Local Units--Counties	2,218,856	2,228,311	2,216,197	(12,114)
Charges for Services				
Trial Court	440,439	440,439	381,818	(58,621)
Circuit Court Costs	13,350	13,350	15,918	2,568
District Court Costs	130,583	130,583	99,938	(30,645)
Friend of the Court Services	23,168	23,168	23,318	150
Probate Court Costs	32,610	32,610	30,148	(2,462)
Clerk/Register of Deeds Services	293,200	293,200	301,816	8,616
Transfer Tax	130,000	130,000	127,934	(2,066)
Equalization Department	36,000	36,000	23,138	(12,862)
Treasurer Services	1,500	1,500	1,269	(231)
Forensic Lab Fee	1,653	1,653	367	(1,286)
Sheriff Services	41,800	41,800	35,555	(6,245)
Jail	46,000	46,000	28,580	(17,420)
Animal Control Services	5,500	5,500	8,014	2,514
Planning and Zoning Services	12,800	12,800	15,437	2,637
Total Charges for Services	1,208,603	1,208,603	1,093,250	(115,353)
Fines and Forfeits				
Bond Forfeiture	29,445	29,445	9,625	(19,820)
District Court Fines and Forfeitures	35,558	35,558	33,156	(2,402)
Dog Damage and Fines	4,500	4,500	7,638	3,138
Non-Sufficient Funds Fine	-	-	270	270
Total Fines and Forfeits	69,503	69,503	50,689	(18,814)
Interest and Rents				
Interest Earned	60,500	60,500	38,952	(21,548)
Rentals	-	-	2,295	2,295
Total Interest and Rents	60,500	60,500	41,247	(19,253)
Other Revenues				
Contributions/Donations	22,000	24,700	23,381	(1,319)
Drunk Driving Caseload	8,125	8,125	7,718	(407)
Reimbursements	133,706	141,831	87,964	(53,867)
Other	1,116	1,116	(68,094)	(69,210)
Total Other Revenues	164,947	175,772	50,969	(124,803)
Total Revenue	9,741,856	9,736,165	9,407,592	(328,573)
Other Financing Sources				
Transfers In	12,600	97,600	619,854	522,254
Total Other Financing Sources	12,600	97,600	619,854	522,254
Total Revenues and Other Financing Sources	\$ 9,754,456	\$ 9,833,765	\$ 10,027,446	\$ 193,681

OTSEGO COUNTY
STATEMENT OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2004

EXHIBIT AA

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
General Government				
Board of Commissioners	\$ 238,380	\$ 246,481	\$ 234,073	\$ 12,408
46th Trial Court	2,809,781	2,658,335	2,622,776	35,559
Circuit Court	276,920	276,920	254,249	22,671
District Court--East	-	173,188	193,407	(20,219)
Friend of the Court	808,549	812,556	1,020,500	(207,944)
FOC Medical Support	-	-	360	(360)
Jury Commission	12,100	12,100	2,955	9,145
Probate Court	325,900	325,900	330,284	(4,384)
Family Counseling	2,900	2,900	5,545	(2,645)
Administrative Services	244,306	258,137	171,192	86,945
Clerk and Register of Deeds	346,672	376,672	335,539	41,133
Audit	30,000	30,000	39,906	(9,906)
IT Department	20,000	20,000	38,589	(18,589)
Equalization	227,729	237,729	238,661	(932)
Treasurer	200,958	193,226	183,592	9,634
Cooperative Extension	46,039	46,039	68,218	(22,179)
Elections	25,400	25,400	15,818	9,582
Joint Building Authority	162,528	162,528	153,122	9,406
Prosecuting Attorney	412,760	457,760	460,215	(2,455)
Surveyor	200	200	-	200
Soil Conservation	6,500	6,500	6,500	-
Survey and Remonumentation	39,704	39,704	-	39,704
Total General Government	6,237,326	6,362,275	6,375,501	(13,226)
Public Safety				
Sheriff	798,308	813,308	823,421	(10,113)
Sheriff Civil Division	41,792	41,792	37,893	3,899
SANE	10,000	10,000	10,000	-
Justice Training	2,550	6,211	6,081	130
Marine Safety	9,836	9,836	8,521	1,315
Motorcycle Safety Education	6,280	37,847	37,999	(152)
Secondary Road Patrol	64,262	71,583	62,006	9,577
Jail	773,921	933,921	880,490	53,431
Animal Control	145,189	160,867	158,264	2,603
Emergency Services	23,158	47,158	71,528	(24,370)
Total Public Safety	1,875,296	2,132,523	2,096,203	36,320
Public Works				
Drains	2,500	2,500	2,350	150
Total Public Works	2,500	2,500	2,350	150

OTSEGO COUNTY
STATEMENT OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2004

EXHIBIT AA
(CONTINUED)

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Health and Welfare				
Communicable Diseases	500	500	-	500
Medical Examiner	60,000	60,000	46,995	13,005
District Health	176,248	176,248	177,987	(1,739)
Mental Health	94,003	94,003	94,003	-
Veterans' Burial	8,500	8,500	6,540	1,960
Veterans' Affairs	30,923	22,944	9,514	13,430
Substance Abuse	65,618	67,766	67,766	-
Total Health and Welfare	435,792	429,961	402,805	27,156
Community and Economic Development				
Planning and Zoning	153,059	159,149	134,949	24,200
Link Michigan	144,464	144,464	24,577	119,887
Economic Alliance	15,000	15,000	15,000	-
Chamber of Commerce	2,000	2,000	2,000	-
Total Community and Economic Development	314,523	320,613	176,526	144,087
Recreation and Cultural				
Fair Board	1,000	1,000	1,000	-
Total Recreational and Cultural	1,000	1,000	1,000	-
Other				
Bonds and Insurance	-	-	362,063	(362,063)
Retiree Insurance	138,453	143,453	144,112	(659)
Other Distributive	84,000	84,000	43,974	40,026
Total Other	222,453	227,453	550,149	(322,696)
Total Expenditures	9,088,890	9,476,325	9,604,534	(128,209)
Other Financing Uses				
Interfund Transfers (Out)				
Law Library	5,000	5,000	5,000	-
Child Care	325,000	325,000	325,000	-
Soliders' and Sailors' Relief	5,000	5,000	5,000	-
Building Authority	5,000	5,000	5,000	-
Airport	98,806	98,806	98,806	-
Equipment Fund	50,000	71,278	71,278	-
Administrative Services	179,760	160,622	2,970	157,652
Total Other Financing Uses	668,566	670,706	513,054	157,652
Total Expenditures and Other Financing Uses	\$ 9,757,456	\$ 10,147,031	\$ 10,117,588	\$ 29,443

OTSEGO COUNTY AMBULANCE CORPS, INC.
GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS
December 31, 2004

EXHIBIT AB-1

	Modified Accrual Basis	Adjustments	Statement of Net Assets
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 22,629		\$ 22,629
Investments	47		47
Taxes Receivable	433,109		433,109
Accounts Receivable (Net)	173,877		173,877
Capital Assets (Net of Accumulated Depreciation)		\$791,800	791,800
Total Assets	\$629,662	\$791,800	\$1,421,462
<u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable	\$ 35,781		\$ 35,781
Due to Other Funds--Primary Government	3,904		3,904
Accrued Wages Payable	15,916		15,916
Deferred Revenue--Taxes Receivable	433,109		433,109
Deferred Revenue--Accounts Receivable	53,938	\$ (53,938)	-
Non-Current Liabilities			
Installment Purchase Agreement Payable			
Due Within One Year		80,363	80,363
Due in More Than One Year		140,911	140,911
Advances--Due to Primary Government:			
Due Within One Year	21,163		21,163
Due in More Than One Year	44,951		44,951
Total Liabilities	608,762	167,336	776,098
<u>FUND BALANCE/NET ASSETS</u>			
Fund Balances--Unreserved	20,900	(20,900)	-
Total Fund Equities	20,900	(20,900)	-
Total Liabilities and Fund Balance	\$629,662		
Net Assets			
Invested in Capital Assets--Net of Related Debt		570,526	570,526
Restricted for Ambulance Operations		74,838	74,838
Total Net Assets		\$645,364	\$ 645,364

OTSEGO COUNTY AMBULANCE CORPS, INC.
STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2004

EXHIBIT AB-2

	Modified Accrual Basis	Adjustments	Statement of Net Assets
Revenue			
Property Taxes	\$ 403,796		\$ 403,796
Charges for Services	972,656	\$ (63,180)	909,476
Other Revenues	12,878		12,878
Total Revenue	1,389,330	(63,180)	1,326,150
Expenditures			
Health and Welfare	1,256,999	140,009	1,397,008
Capital Outlay	107,388	(107,388)	-
Debt Service			
Principal	91,748	(91,748)	-
Interest	19,194		19,194
Total Expenditures	1,475,329	(59,127)	1,416,202
Excess of Revenue Over (Under) Expenditures	(85,999)	(4,053)	(90,052)
Other Financing Sources			
Proceeds From Lease Purchase Agreements	92,244	(92,244)	-
Total Other Financing Sources	92,244	(92,244)	-
Excess of Revenues and Other Financing Sources Over Expenditures	6,245		
Change in Net Assets		(96,297)	(90,052)
Fund Balance/Net Assets--Beginning of Year	14,655		735,416
Fund Balance/Net Assets--End of Year	\$ 20,900	\$ (96,297)	\$ 645,364

**OTSEGO COUNTY UNIVERSITY CENTER
GOVERNMENTAL FUNDS BALANCE SHEET
STATEMENT OF NET ASSETS
December 31, 2004**

EXHIBIT AC-1

	Modified Accrual Basis	Adjustments	Statement of Net Assets
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 254,993		\$ 254,993
Investments	152,512		152,512
Taxes Receivable	603,001		603,001
Accounts Receivable (Net)	8,062		8,062
Capital Assets (Net of Accumulated Depreciation)		\$ 238,758	238,758
Total Assets	<u>\$1,018,568</u>	<u>\$ 238,758</u>	<u>\$1,257,326</u>
<u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable	\$ 20,917		\$ 20,917
Due to Other Funds--Primary Government			-
Accrued Wages Payable	3,638		3,638
Deferred Revenue	613,668		613,668
Total Liabilities	<u>638,223</u>	<u>\$ -</u>	<u>638,223</u>
<u>FUND BALANCE/NET ASSETS</u>			
Fund Balances--Unreserved	<u>380,345</u>	<u>(380,345)</u>	<u>-</u>
Total Fund Equities	<u>380,345</u>	<u>(380,345)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$1,018,568</u>		
Net Assets			
Invested in Capital Assets--Net of Related Debt Restricted for University Center Operations		238,758	238,758
			<u>380,345</u>
Total Net Assets		<u>\$ 238,758</u>	<u>\$ 619,103</u>

OTSEGO COUNTY UNIVERSITY CENTER
STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2004

EXHIBIT AC-2

	Modified Accrual Basis	Adjustments	Statement of Net Assets
Revenue			
Property Taxes	\$ 566,957		\$ 566,957
Interest and Rents	193,725		193,725
Other Revenues	6,750		6,750
Total Revenue	767,432	\$ -	767,432
Expenditures			
Recreational and Cultural	427,380	180,202	607,582
Capital Outlay	112,158	(112,158)	-
Total Expenditures	539,538	68,044	607,582
Excess of Revenue Over (Under) Expenditures	227,894	(68,044)	159,850
Other Financing Sources			
Transfers Out--Primary Government	(241,288)		(241,288)
Total Other Financing Sources	(241,288)	-	(241,288)
Excess of Revenues and Other Financing Sources Over Expenditures	(13,394)		
Change in Net Assets		(68,044)	(81,438)
Fund Balance/Net Assets--Beginning of Year	393,739		700,541
Fund Balance/Net Assets--End of Year	\$ 380,345	\$ (68,044)	\$ 619,103

**OTSEGO COUNTY
GRANT NO. MSC-2003-0812-H0A**

**APPLICATION OF STATE BLOCK GRANT FUNDS
FOR THE GRANT PERIOD: JANUARY 1, 2003-DECEMBER 31, 2004**

THIS REPORT COVERS JANUARY 1, 2004-DECEMBER 31, 2004

<u>ACTIVITY</u>	<u>AUTHORIZED COSTS</u>	<u>ACTUAL COSTS</u>	<u>UNDER (OVER)</u>
CDBG Homeowner Rehabilitation (CDBG Deferred) (CDBG Loans)	\$ 139,250.00	\$ 7,080.00 (3,445.00) (3,635.00)	\$ 132,170.00
CDBG HO Replacement	25,000.00	-	25,000.00
CDBG HO Emergency Repair	21,000.00	-	21,000.00
CDBG HB Acquisition	30,000.00	-	30,000.00
CDBG Administration	47,250.00	35,426.81	11,823.19
Subtotal	<u>\$ 262,500.00</u>	<u>\$ 42,506.81</u>	<u>\$ 219,993.19</u>
<u>OTHER FUNDS/SOURCES</u>			
Otsego County Habitat	-	-	-
RHP Loans	-	-	-
USDA--Rural Development	\$ 3,281.00	\$ 3,281.00	-
PIP Loans	-	-	-
PIP Administration	-	-	-
HPG Program Income Rehabilitation	1,779.74	1,779.74	-
HPG Program Income Administration	-	-	-
CDBG Program Income Rehabilitation	18,077.38	18,077.38	-
CDBG Program Income Administration	2,337.78	1,464.78	\$ 873.00
County Rehabilitation Funds	6,000.00	6,000.00	-
County Administration Funds	-	-	-
Owner Contributions	875.00	875.00	-
NEMCSA Weatherization	4,389.35	4,389.35	-
FIA	2,218.80	2,218.80	-
Subtotal	<u>\$ 38,959.05</u>	<u>\$ 38,086.05</u>	<u>\$ 873.00</u>
TOTAL	<u>\$ 301,459.05</u>	<u>\$ 80,592.86</u>	<u>\$ 220,866.19</u>

**OTSEGO COUNTY
GRANT NO. MSC-2003-0812-H0A**

**APPLICATION OF STATE BLOCK GRANT FUNDS
FOR THE GRANT PERIOD: JANUARY 1, 2003-DECEMBER 31, 2004**

THIS REPORT COVERS JANUARY 1, 2003-DECEMBER 31, 2004

<u>ACTIVITY</u>	<u>AUTHORIZED COSTS</u>	<u>ACTUAL COSTS</u>	<u>UNDER (OVER)</u>
CDBG Homeowner Rehabilitation (CDBG Deferred) (CDBG Loans)	\$ 139,250.00	\$ 140,782.00 (105,162.00) (35,620.00)	\$ (1,532.00)
CDBG HO Replacement	25,000.00	25,000.00	-
CDBG HO Emergency Repair	21,000.00	19,468.00	1,532.00
CDBG HB Acquisition	30,000.00	30,000.00	-
CDBG Administration	47,250.00	47,250.00	-
Subtotal	\$ 262,500.00	\$ 262,500.00	\$ -
<u>OTHER FUNDS/SOURCES</u>			
Otsego County Habitat	\$ 156,000.00	\$ 156,000.00	-
RHP Loans	-	-	-
USDA--Rural Development	31,867.00	31,867.00	-
PIP Loans	31,787.75	31,787.75	-
PIP Administration	100.00	100.00	-
HPG Program Income Rehabilitation	1,779.74	1,779.74	-
HPG Program Income Administration	-	-	-
CDBG Program Income Rehabilitation	49,276.38	49,276.38	-
CDBG Program Income Administration	9,760.58	8,887.58	\$ 873.00
County Rehabilitation Funds	59,268.78	59,268.78	-
County Administration Funds	-	-	-
Owner Contributions	1,116.00	1,116.00	-
NEMCSA Weatherization	4,389.35	4,389.35	-
FIA	2,218.80	2,218.80	-
Subtotal	\$ 347,564.38	\$ 346,691.38	\$ 873.00
TOTAL	\$ 610,064.38	\$ 609,191.38	\$ 873.00

OTSEGO COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (1) (2)
For the Year Ended December 31, 2004

SCHEDULE 3

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor Pass-Through Number</u>	<u>Federal Revenues</u>	<u>Federal Expenditures</u>
<u>PRIMARY GOVERNMENT</u>				
US DEPARTMENT OF AGRICULTURE				
Passed Through Michigan Department of Agriculture				
Gypsy Moth Program	10.025	(3)	\$ 16,384	\$ 16,384
Passed Through Northeast Michigan Community Service Agency, Inc.				
Nutrition Services Incentive--Title III C1	10.570	(3)	14,252	14,252
Nutrition Services Incentive--Title III C2	10.570	(3)	9,023	9,023
Total US Department of Agriculture			39,659	39,659
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed Through Michigan State Housing Development Authority				
Community Development Block Grant	14.228	Program Income	90,014	17,038
Community Development Block Grant	14.228	MSC-2003-0812-HOA	55,844	55,844
Total US Department of Housing and Urban Development			145,858	72,882
US DEPARTMENT OF JUSTICE				
Passed Through the Michigan Family Independence Agency				
Juvenile Accountability Incentive Block Grant	16.523	JABGN 03-69001	20,307	20,307
Juvenile Accountability Incentive Block Grant	16.523	JABGN 04-69001	64,301	64,301
Passed Through the Michigan Department of Community Health				
Byrne Memorial Formula Grants	16.579	20040739	77,737	77,737
Total US Department of Justice			162,345	162,345
US DEPARTMENT OF TRANSPORTATION				
Passed Through Michigan Department of Transportation				
Operating Assistance--Section 5311	20.509	2002-0079-Z9	162,295	162,295
Rural Transit Assistance Program	20.509	(3)	558	558
Passed Through Michigan Department of State Police				
Hazardous Materials Emergency Preparedness Training and Planning Grants	20.703	(3)	1,353	1,353
Total US Department of Transportation			164,206	164,206
US DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed Through Michigan Family Independence Agency				
Title IV-D, Child Support Enforcement				
ADC Incentive Program	93.558	(3)	60,438	(4)
Cooperative Reimbursement Program	93.563	CS/MED-04-69001-1	12,692	12,692
Cooperative Reimbursement Program	93.563	CS/MED-05-69001-1	5,022	5,022
Cooperative Reimbursement Program	93.563	CS/PA-04-69002	20,839	20,839
Cooperative Reimbursement Program	93.563	CS/PA-05-69002	7,134	7,134
Cooperative Reimbursement Program	93.563	CS/FOC-04-69001-1	393,214	393,214
Cooperative Reimbursement Program	93.563	CS/FOC-05-69001-1	159,220	159,220

OTSEGO COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (1) (2)
For the Year Ended December 31, 2004

SCHEDULE 3
(CONTINUED)

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor Pass-Through Number</u>	<u>Federal Revenues</u>	<u>Federal Expenditures</u>
Passed Through Michigan Office of Services to the Aging				
Passed Through Northeast Michigan Community Service Agency, Inc.				
Special Programs for the Aging				
Title III Part B--Supportive Services and Senior Centers				
Respite	93.044	(3)	2,000	2,000
Respite--Program Income	93.044	(3)	584	584
Homemaker	93.044	(3)	11,622	11,622
Homemaker--Program Income	93.044	(3)	9,928	9,928
Personal Care	93.044	(3)	11,000	11,000
Personal Care--Program Income	93.044	(3)	5,775	5,775
Title III Part C--Nutrition Services				
Congregate Meals	93.045	(3)	28,051	28,051
Congregate Meals--Program Income	93.045	(3)	42,727	42,727
Home Delivered Meals	93.045	(3)	9,078	9,078
Home Delivered Meals--Program Income	93.045	(3)	14,148	14,148
Title III Part E--National Family Caregiver Support				
Health Resource Center	93.052	(3)	4,000	4,000
Student Intern	93.052	(3)	4,250	4,250
Care Giver Support	93.052	(3)	2,500	2,500
DEMO Grant	93.769	(3)	65,000	65,000
Medicaid Waiver	93.778	(3)	9,701	9,701
Total US Department of Health and Human Services			<u>878,923</u>	<u>818,485</u>
US DEPARTMENT OF HOMELAND SECURITY				
Passed Through Michigan Department of State Police				
2003 Part I State Homeland Security Grant Program	97.004	(3)	21,020	21,020
2003 Part II State Homeland Security Grant Program	97.004	(3)	5,000	5,000
Emergency Management Performance Grant	97.042	(3)	10,496	10,496
2002 Citizen Corps Grant	97.053	(3)	2,263	2,263
2002 Community Emergency Response Teams Grant	97.054	(3)	8,336	8,336
Total US Department of Homeland Security			<u>47,115</u>	<u>47,115</u>
TOTAL PRIMARY GOVERNMENT			<u>\$ 1,438,106</u>	<u>\$ 1,304,692</u>

See the Accompanying Notes to the Schedule of Expenditures of Federal Awards.

OTSEGO COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2004

- (1) The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal awards programs of Otsego County. Federal awards received directly from Federal agencies, as well as Federal awards passed through other government agencies, are included on the schedule.

It is required by the Michigan Department of Transportation (MDOT) that road commissions report total Federal financial assistance for highway research, planning and construction pertaining to their county. However, only the Federal financial assistance applicable to force account expenditures is required to be audited for compliance under the Single Audit Act through road commission procurement. The reason for this requirement is that the road commission is required to have accounting and administrative control over the force account (negotiated) contracts while, all other contracts are administered by the Michigan Department of Transportation. During 2004, the Road Commission (Component Unit) received and expended \$386,610 in Federal Highway grant money where the work was performed by contractors that were paid directly from the State, which is included in the State's single audit.

- (2) The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note A of the county's financial statements.
- (3) Pass-through grantor's number was not available.
- (4) Revenue from this grant is based on collection effort only, with no directly related expenditures.

Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004

Section I--Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- | | | | | |
|---|-----------------|-----|-----------------|---------------|
| • Material weakness(es) identified? | <u>✓</u> | Yes | <u> </u> | No |
| • Reportable condition(s) identified that are not considered to be material weaknesses? | <u>✓</u> | Yes | <u> </u> | None Reported |
| • Noncompliance material to financial statements noted? | <u> </u> | Yes | <u>✓</u> | No |

Federal Awards

Internal control over major programs:

- | | | | | |
|---|-----------------|-----|-----------------|---------------|
| • Material weakness(es) identified? | <u>✓</u> | Yes | <u> </u> | No |
| • Reportable condition(s) identified that are not considered to be material weaknesses? | <u> </u> | Yes | <u>✓</u> | None Reported |

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are
 Required to be reported in accordance with
 section 510(a) of Circular A-133?

<u>✓</u>	Yes	<u> </u>	No
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Identification of Major Programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
14.228	Community Development Block Grant
93.563	Child Support Enforcement Title IV-D

Dollar threshold used to distinguish
 Between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

<u> </u>	Yes	<u>✓</u>	No
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**Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004**

Section II--Financial Statement Findings

MATERIAL WEAKNESSES

The following conditions are considered material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk of misstatements in amounts that would be material in relation to the financial statements.

Treasurer--Common Account Reconciliation

Finding 03-01

Condition: Since the discontinuance of the sweep account for vendor payments and the re-establishment of a separate account for these payments, the general checking account monthly reconciliations continue to show variances with the general ledger. The initial unexplained variances date back to 2001 and have not been fully resolved as of the audit date. We also found that the reconciliation procedures employed by the treasurer's office are unnecessarily complex. The reconciliation reconciles the book to bank instead of the adjusted bank to the book balance.

At the beginning of 2005, the county hired a local accounting firm to help reconcile the common bank account. Upon further review, the accounting firm found that other bank accounts, including the payroll checking and housing accounts, were also not being reconciled. We also found that the investment accounts were not reconciled which lead to adjustments being made to all investment accounts in nearly all the funds.

Finally, the county has established a cash line-item titled "Equity in Pooled Cash" for all funds using multiple common bank accounts that are being reconciled together as common cash. These common bank accounts consist of both cash and investments.

Criteria: Strong internal controls require that bank accounts be reconciled on a timely basis. All local governmental units must establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment which might be vulnerable to the risk of loss or unauthorized use. Such assets should be periodically counted and reconciled to control records.

Further, the Uniform Chart of Accounts established by the Michigan Department of Treasury establishes line-items for both cash and investments. The separation of these accounts is also necessary for the facilitation of the financial statements for reporting requirements established by the Governmental Accounting Standards Board Statement No. 40.

**Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004**

**Section II--Financial Statement Findings
(Continued)**

MATERIAL WEAKNESSES (Continued)

Recommendation: We recommend that procedures be established that fully reconcile all bank accounts to the general ledger on a monthly basis. Additionally, we recommend that the treasurer establish subaccounts for cash and investment accounts that reconcile to the individual bank or financial institution accounts. Currently, several bank accounts may reconcile to a single general ledger account. This requires that each journal entry, affecting a bank account, be tracked on a set of complex spreadsheets.

- Contact Person(s) Responsible for Correction
Diann Axford, County Treasurer
- Corrective Action Planned
Payroll and housing accounts were reconciled as of December 31, 2004, and copies were given to the auditors along with the reconciliation done by the accounting firm in 2005. There were some transfers that needed to be taken care of and that has been taken care of.
- Anticipated Completion Date
Corrective action has already been done.

Circuit Court Bond Account Reconciliation

Finding 04-1

Condition: The Circuit Court does not maintain a listing of open bonds payable or restitution payables. Upon inquiry and inspection, we found that the circuit court does not reconcile the open bonds payable to the general ledger control balance.

Criteria: The Michigan Court Administration Reference Guide 6-05-15 2 states, "The total outstanding balance in the bond, restitution and trust ledger(s) should be reconciled to the applicable trust bank statement balance and/or local funding unit trust account balance on a monthly basis. The reconciliations should be retained for audit.

Recommendation: We recommend the Circuit Court reconcile monthly the open bond, restitution and trust ledger(s) with the general ledger control accounts.

- Contact Person(s) Responsible for Correction
Suzy Defeyter, County Clerk

**Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004**

**Section II--Financial Statement Findings
(Continued)**

MATERIAL WEAKNESSES (Continued)

- **Corrective Action Planned**
I will be compiling a list of all of the open bonds and outstanding restitution accounts and balance to the general ledger reports.
- **Anticipated Completion Date**
December 31, 2005.

General Inmate Fund Bank Account Reconciliation

Finding 04-2

Condition: The general inmate fund bank account balance is not properly reconciled monthly to the checkbook balance administered by jail personnel.

Criteria: All bank accounts must be reconciled in a timely manner and reconciled to subsidiary records. The reconciliation must contain a listing of deposits in transit and outstanding checks. All discrepancies must be investigated.

Recommendation: We recommend that the bank balance be reconciled to the checkbook balance and the checkbook balance be reconciled to the total inmate account balances, after all commissions earned from commissary sales are transmitted to the county treasurer. Any discrepancies should be investigated and corrected promptly. This should be done monthly on a timely basis.

- **Contact Person(s) Responsible for Correction**
James McBride, County Sheriff
- **Corrective Action Planned:**
In the matter concerning reconciliation, the corrective action being implemented will be in compliance with the auditor's recommendation. Monthly, the inmate checking account checkbook will be balanced with the monthly bank statement and account balances, the bank account has been changed to a business account to aid in the process. Also, a new software program (Swanson Cobra Banker) has been installed and implemented. The new software allows easier bank reconciliation.
- **Anticipated Completion Date**
In accordance with this recommendation, this will be done monthly in a timely manner.

**Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004**

**Section II--Financial Statement Findings
(Continued)**

MATERIAL WEAKNESSES (Continued)

Other Bank Statement Reconciling Items

Finding 04-3

Condition: Another complication, in being able to perform the reconciliation, is the amount of journal entries being used to transfer funds and the initial implementation of the “general billing invoice” procedure established on the MUNIS system. Journal entries were being made to the general ledger by the finance department to transfer cash from one fund to another. However, the two funds involved are not part of the same common bank account. The treasurer’s office was not notified that the transfers from one bank account to another were needed. The result is a fund whose cash which is supposed to only be in one bank account now resides in two, making reconciliations more difficult.

Also, when the MUNIS software was implemented, the finance department established monthly billing procedures to create a “general billing invoice” for the county’s billing of services. The process established receivables and recognized revenue when the invoice was created. When payments were received, the receivable was then supposed to be credited. However, the finance department did not make the treasurer’s office aware of these procedures until approximately 30-60 days after the procedure was implemented and the treasurer continued to record payments as revenue. The result was receivables that were not cleared and revenues that were overstated.

These two factors have contributed to the complexity and complications in the efforts of reconciling the bank accounts and accounts receivable.

Criteria: Strong internal controls suggest that bank accounts and accounts receivable be reconciled on a timely basis and be balanced to subsidiary ledgers or control accounts.

Recommendation: We recommend that the county make certain that communication of new procedures is established between the finance department and the county treasurer’s office prior to the implementation of the procedure to eliminate these occurrences. Timely reconciliation of the bank statements and balancing of the receivables to subsidiary records will assist with finding these issues and correcting future occurrences in a timely manner.

- Contact Person(s) Responsible for Correction
Denise Koning, County Administrator
- Corrective Action Planned:
The finance department is now providing the treasurer’s office with the information necessary to post cash receipts to the “general billing invoices” correctly. Cash accounts have also been consolidated to reduce the need for general journal entries affecting cash.

**Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004**

**Section II--Financial Statement Findings
(Continued)**

MATERIAL WEAKNESSES (Continued)

- Anticipated Completion Date
Otsego County has already implemented the corrective actions.

General Ledger Errors in Posting

Finding 04-4

Condition: In 2004, the county began using the MUNIS software system to maintain its general ledger. In the transition from the old software to the new, the General Fund and Airport Fund were set up with liability accounts called “out of balance.” Also, the county began using the encumbrance system of accounting for purchasing. At the end of 2004, eight funds had an account in their fund balance to reserve an amount for encumbrances with an offsetting entry to increase the funds’ expenditures. The posting to the expenditures, which are based on encumbrances, contradicts generally accepted accounting principles (GAAP).

Criteria: A fund is defined as a set of self-balancing accounts. When the transition between software was made, the “out of balance” amounts should have been removed.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Recommendation: We recommend that the county discontinue its use of the “out of balance” account. If the county continues to use the encumbrance accounting method, we recommend that it ensures that reserve amounts are reported as a fund balance reservation and not as an expenditure to the respective funds at the year end.

- Contact Person(s) Responsible for Correction
Denise Koning, County Administrator
- Corrective Action Planned:
The finance director has already taken steps to ensure that open encumbrances will be treated correctly at year end. It should also be noted that all correcting entries made to the 2004 ledger were calculated by the finance director and submitted to the auditor for posting.

The “out of balance” account will be monitored and adjusted as necessary throughout the year.

- Anticipated Completion Date
The corrective procedures are already in place.

**Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004**

**Section II--Financial Statement Findings
(Continued)**

MATERIAL WEAKNESSES (Continued)

Due To/Due From, Transfer In/Transfer Out, and Long-Term Advances

Finding 04-5

Condition: The due to/due from accounts, transfer in/transfer out accounts, and long-term advances did not agree with each other. Numerous errors were posted to these accounts requiring substantial audit time to correct the balances.

Criteria: These accounts are set up to record short-term amounts due to/from other accounts, appropriations being transferred from one fund to another, and advances from one fund to another. An entry made in one fund should have an equal offsetting entry made into another fund. Essentially, “due to accounts” should equal “due from accounts,” “transfers in should equal transfer outs,” and “advances to other funds” should equal “advances from other funds.”

Recommendation: We recommend that these accounts be periodically reviewed to ensure that they are in balance throughout the year.

- Contact Person(s) Responsible for Correction
Denise Koning, County Administrator
- Corrective Action Planned:
The finance director will monitor these accounts throughout the year for accuracy.
- Anticipated Completion Date
The corrective procedures are already in place.

Current Taxes Receivable

Finding 04-6

Condition: The current taxes receivable was not adjusted prior to the start of the audit. Current taxes receivable is used to record the amount of taxes levied and related charges, which have become due but have not been collected.

Criteria: The current taxes receivable is to be updated each year for the new tax levy based on the taxable value and adjustments needed for distributions to downtown development authorities and tax increment financing authorities. The accounting procedures for current taxes receivable has become even more important this year with the inception of the new law affecting the collection of the county’s operating millage.

Recommendation: We recommend that the county update the current taxes receivable each year prior to the conclusion of the county’s calendar year end.

**Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004**

**Section II--Financial Statement Findings
(Continued)**

MATERIAL WEAKNESSES (Continued)

- Contact Person(s) Responsible for Correction
Diann Axford, County Treasurer
- Corrective Action Planned
It was an agreement between the previous finance director and myself that the finance department would put through the current taxes receivable. Between the new director and myself, we are working together to make sure this is processed on a timely basis.
- Anticipated Completion Date
The corrective action is already in place.

Delinquent Taxes Receivable Records

Finding 04-7

Condition: The delinquent taxes receivable for tax years 1987 through 2003 are not being compared or reconciled to the computer's subsidiary records.

Criteria: The Delinquent Tax Revolving Fund control account balances for delinquent taxes receivable should agree with subsidiary record totals of delinquent taxes receivable for each individual property description for each unit of government (townships, cities, and villages). Also, the subsidiary records of taxes receivable should periodically be checked against the delinquent tax rolls.

Recommendation: We recommend that the treasurer's office review the accounting procedures for delinquent taxes receivable and take care to assure that the general ledger entries are reconciled to the computer generated subsidiary records and delinquent tax rolls.

- Contact Person(s) Responsible for Correction
Diann Axford, County Treasurer
- Corrective Action Planned
With the implementation of a new accounting system and a new delinquent tax system, we were not able to get all the training done that was necessary plus we are short staffed causing all of us to fall behind. We have since then had the training and have corrected the matter.
- Anticipated Completion Date
The corrective procedures are already in place.

**Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004**

**Section II--Financial Statement Findings
(Continued)**

MATERIAL WEAKNESSES (Continued)

Treasurer--Posting of Chargebacks

Finding 04-8

Condition: The county treasurer's office had not posted its board of review and other delinquent tax adjustments for the past 18 months which created discrepancies between the general ledger and the subsidiary records. These adjustments were only posted after the audit had begun.

As of December 31, 2004, a balance of \$467,200 was recorded as a receivable in the delinquent tax fund. This balance has accumulated over the past two years as the county has not charged back the local units of the county for changes in delinquent taxes created by adjustments, such as board of reviews. Included in the \$467,200 was an improper refund of \$166,369 to a taxpayer for tax tribunal adjustments relating to delinquent personal property taxes from 1998 through 2003.

Criteria: According to MCL 211.87b, a delinquent tax fund may be created by counties to maintain balances for delinquent taxes for real property taxes unpaid. Upon the establishment of the fund, all delinquent taxes, except taxes on personal property, due and payable to the taxing units in the county, are due and payable to the county. Delinquent **personal** property taxes are to be collected by the cities, villages and townships. When an adjustment is made to these amounts by activities such as board of reviews, the county shall adjust its records by increasing or decreasing the amount owed. If the amount is decreased, said amount is to be refunded to the property owner and reimbursed to the county from the local units based on the millage levied. All adjustments are to be posted in a timely manner.

Recommendation: We recommend that the treasurer's office immediately begin charging back the local units for the balance of the adjustments owed to the county and that in the future all adjustments such as board of reviews be posted and billed timely.

- Contact Person(s) Responsible for Correction
Diann Axford, County Treasurer
- Corrective Action Planned
The process of chargebacks is from April 1 through March 31 of the next year, not 18 months. The process of chargebacks has been done this way for many years and as the new treasurer, I have continued doing it the way it was always done. At the end of settlement, the chargebacks are adjusted with the delinquent amounts due the townships, schools, etc., therefore getting our money returned to us.
- Anticipated Completion Date
The corrective procedures are already in place.

**Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004**

**Section II--Financial Statement Findings
(Continued)**

MATERIAL WEAKNESSES (Continued)

Addendum: Board of reviews and other adjustments are performed twice a year. The last posting of any amount relating to a chargeback was posted in September 2003. No chargebacks were performed in 2004. Therefore, the county has not collected the chargebacks relating to the December 2003 board of review period or the two board of review periods in 2004.

MCL 211.87, Section (4,5), concerning adjustment of accounts; statement of account; interest on delinquent payments; chargeback lists states, "The county treasurer of each county shall, on or before the fifteenth day of each month, make out a detailed statement of account for the preceding calendar month between the county and the local tax collecting units in that county. The statement shall show the different funds to which the several debits and credits belong. The county treasurer shall deliver the statement to the treasurer of the local tax collecting unit and pay the amount shown by the statement to the local tax collecting unit. The county treasurer shall notify the clerk of the local tax collecting unit of the total amount paid and provide a description of the property upon which the taxes were paid. The county clerk shall charge that amount to the county treasurer, and the clerks of the local tax collecting units shall charge that amount to the treasurers of the local tax collecting units on the books of their respective offices.

Treasurers for the local tax collecting units are not required to make a settlement with the county treasurer for the items of state and county taxes included in the annual charge back list until the annual settlement with the county treasurer."

The state charges the county back monthly and provides a quarterly statement showing the chargeback amounts. In turn, the county charges the local units back prior to making payment to them as required by the 15th and 30th of each month, while taxes are being collected for the local unit.

Accounts Receivable

Finding 04-9

Condition: Numerous funds had receivable balances from the prior year that were either not collected or properly reversed off of the county's general ledger. The accounts receivable for the current year was posted incorrectly as an increase to cash instead of the respective receivable accounts. When the current year receivables were corrected, the entire balances were recorded to accounts receivable "040" account, regardless of the type of receivable (i.e., Due from Counties, Due from State, Due from Other Units of Government, etc.).

**Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004**

**Section II--Financial Statement Findings
(Continued)**

MATERIAL WEAKNESSES (Continued)

Criteria: Account balances should reconcile to their respective subsidiary ledgers. Receivables that are collected should be posted (credited) against the receivable accounts and amounts that are not collected should be investigated and written off only after board approval. Further, the Uniform Chart of Accounts has designated the 040 account to be used for all such transactions with individuals and private organizations. The 072 account is to be used for Due from Counties, the 078 account is to be used to record amounts due from the State of Michigan and the 081 account is to be used for Due from Other Units of Government.

Recommendation: We recommend that the receivables balance be posted to the general ledger in accordance with the Uniform Chart of Accounts and that the balances are compared with the subsidiary record of amounts to be collected. Receivables should be periodically reviewed and old receivables should be investigated and brought to the attention of the board to determine if collection should be pursued or if the receivable should be written off.

- Contact Person(s) Responsible for Correction
Diann Axford, County Treasurer
- Corrective Action Planned
With a new accounting system in place, we were instructed to do the accounts receivable differently this year than in past years. We did not like the way it was done and have already implemented a different procedure to process accounts receivable.
- Anticipated Completion Date
The corrective action plan is already in place.

Accounts Payable--Reconcilement of Distribution Control Accounts to Subsidiary Records

Finding 04-10

Condition: Prior to adjustments, the control accounts for accounts payable in the year end general ledger did not agree with subsidiary records and reports (open invoice list by general ledger account).

Criteria: Subsidiary records should tie to control accounts. Specifically, the accounts payable recorded in all funds should agree with the Open Invoice List.

**Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004**

**Section II--Financial Statement Findings
(Continued)**

MATERIAL WEAKNESSES (Continued)

Recommendation: We recommend that, prior to closing the books at year end, the responsible county personnel compare relevant subsidiary records and reports to the general ledger to assure that the accounts payable balances agree with the totals reported in the supporting records and reports.

- Contact Person(s) Responsible for Correction
Denise Koning, County Administrator
- Corrective Action Planned:
The finance director will reconcile accounts payable balances to subsidiary ledgers.
- Anticipated Completion Date
The corrective procedures are already in place.

Accrued Wages

Finding 04-11

Condition: Prior to adjustments, the accrued wage liability was recorded as a reduction to cash instead of a liability, resulting in an understatement of cash in the amount of \$170,367.

Criteria: According the Uniform Chart of Accounts, accrued wages is designated as a liability used to record wages earned by employees, but not due until a later date.

Recommendation: We recommend that, prior to closing the books at year end, the responsible county personnel compare relevant subsidiary records and reports to the general ledger to assure that the accrued wage balances are recorded as liabilities within the proper departments and funds.

- Contact Person(s) Responsible for Correction
Denise Koning, County Administrator
- Corrective Action Planned:
The finance director has already taken steps to ensure that accrued wages will be treated correctly at year end. It should also be noted that all correcting entries made to the 2004 ledger were calculated by the finance director and submitted to the auditor for posting.
- Anticipated Completion Date
The corrective procedures are already in place.

**Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004**

**Section II--Financial Statement Findings
(Continued)**

MATERIAL WEAKNESSES (Continued)

Posting of Federal and State Grants

Finding 04-12

Condition: When the county switched to the MUNIS software to maintain its general ledger, balances for Federal and State grants were lumped into one line-item for the conversion. Before the year ended, some of these grants were reclassified and some were not. Further, as the new system and new revenue accounts were beginning to be used, the grants were not consistently posted to the same account. The result was that State and Federal grants were posted to the same line-items and some grants were posted to more than one line-item. For homeland security, expenditures were posted against the revenues. Numerous audit hours were required to separate the grants, so that we could assist the county in preparing the Schedule of Expenditures of Federal Awards. The Schedule of Expenditures of Federal Awards is a requirement as stated in the provisions of the Office of Management and Budget's Circular A-133 and is also contained in the requirements set forth in each contract signed by the county in order to receive Federal aid.

Criteria: The Uniform Chart of Accounts issued by the Michigan Department of Treasury has assigned separate, distinct account numbers for both the Federal and State grants received by a local unit of government. The purpose of the Uniform Chart of Accounts is to maintain consistency in reporting for all local units of government throughout the state. Using the appropriate account numbers also aides in the preparation of the Schedule of Expenditures of Federal Awards.

Recommendation: We recommend that the county establish an individual revenue account number line-item for each separate Federal and State grant to facilitate the preparation of the county's financial statements, including the Schedule of Expenditures of Federal Awards, to comply with the Uniform Chart of Accounts and with the provision of the Office of Management and Budget's Circular A-133.

- Contact Person(s) Responsible for Correction
Denise Koning, County Administrator
- Corrective Action Planned:
The treasurer and the finance director have implemented procedures which will enhance the monitoring of revenue recognition and classification.
- Anticipated Completion Date
The corrective action is already in place.

**Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004**

**Section II--Financial Statement Findings
(Continued)**

MATERIAL WEAKNESSES (Continued)

Trust and Agency Fund Incorrect Liability Account Balances

Finding 04-13

Condition: Various liability accounts in the Trust and Agency Fund had debit balances and other various liability account balances had incorrect credit balances.

Criteria: Funds held in trust by a local unit of government are liabilities of the trust and agency fund. Liabilities normally have credit balances. Debit balances appear when overpayments are made or errors in entries occur.

Recommendation: We recommend that the responsible personnel investigate and resolve all debit balances and incorrect credit balances in the liability accounts. All funds owed to the county for overpayments should be requested from those entities and/or individuals that were overpaid. All incorrect liability accounts that have differences that cannot be explained should be reconciled with supporting detail records. The net unexplained shortage or overage for all Trust and Agency Fund accounts should be submitted to the board of commissioners for their review.

If there is a net overage, we recommend the board authorize it to be transferred to the General Fund. If there is a net shortage, we recommend that board approve an appropriation from the General Fund to reimburse the Trust and Agency Fund. Court trust items should be separated by court and account number to assist with their reconciliation to their records. If necessary, a point off of the account number should be used (i.e. 265.131 for circuit court bonds payable and 265.136 for district court bonds payable).

- Contact Person(s) Responsible for Correction
Diann Axford, County Treasurer
- Corrective Action Planned
I wasn't aware of the responsibility of keeping track of the items in the Trust and Agency accounts. Each department that uses the line-items has always been the ones to keep them in balance and at a minimum balance.
- Anticipated Completion Date
The corrective procedures are already in place.

**Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004**

**Section II--Financial Statement Findings
(Continued)**

OTHER REPORTABLE CONDITIONS

Although the following are not considered material weaknesses in internal control, we wish to point out certain other reportable conditions for consideration by the management of Otsego County.

Board of Commissioners--Capital Assets Records

Finding 03-04

Condition: The capital asset listing was not updated until after the start of the audit. The 2004 additions in the capital asset report did not agree with the capital outlay accounts recorded in the general ledger. Adjustments were needed to reclassify purchases below the amount set forth in the county's capitalization policy; reclassify purchases posted to wrong expense line-items and to post the depreciation expense for the enterprise funds that was not recorded. Also, due to time constraints, a list of disposals could not be prepared due to the time needed to distribute the list to the different departments to update the listing.

Criteria: The Michigan Department of Treasury and generally accepted accounting principles requires that each governmental unit maintain a record of capital assets. Governmental Accounting Standards Board (GASB) Statement No. 34 requires capital assets to be presented on the Statement of Net Assets, net of depreciation and related debt.

Recommendation: We recommend that the board of commissioners take appropriate action to complete the capital asset records. Specifically, the board might consider the following:

- 1) Have one person maintain and/or reconcile the capital asset listing to the general ledger detail for acquisition and disposal of capital assets in the manner required for reporting purposes.
- 2) Capital assets that meet the county's capitalization policy should be included on the capital asset listing.
- 3) Capital outlay/assets which are purchased under the established capitalization threshold or assets with life expectancy of less than 1 year, regardless of cost, should be classified as a supply or repairs and maintenance expenditure.
- 4) The capital assets inventory must be updated during the year and reported annually in the county's financial statements.
- 5) Depreciation expense should be computed and recorded for GASB Statement No. 34 government-wide financial statements.

**Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004**

**Section II--Financial Statement Findings
(Continued)**

OTHER REPORTABLE CONDITIONS (Continued)

Management Response:

- Contact Person(s) Responsible for Correction
Denise Koning, County Administrator
- Corrective Action Planned
The finance Director, in conjunction with department heads, will be maintaining an accurate list of capital assets and performing depreciation computations.
- Anticipated Completion Date
The corrective actions are already in place.

Cooperative Reimbursement Payments Due to Crawford and Kalkaska County *Finding 04-14*

Condition: As of December 31, 2004, the Friend of the Court Fund (Fund 215) had a balance due to Crawford County of \$36,560 and a balance due to Kalkaska County \$24,913 for their share of the cooperative reimbursement program grant revenue received by Otsego County. The grant revenue is received by Otsego County because they have been appointed the lead county of the three county court system. These amounts are a total of the last two years of activity as no amounts have been disbursed to the other counties as of the year end.

Criteria: The revenue received by Otsego County on behalf of the other counties should be paid on the schedule agreed upon by the three counties and the court administrator.

Recommendation: We recommend that these balances listed above immediately be distributed to the other counties and that procedures be implemented to ensure the timely distribution of grant revenue in accordance with the agreement between the three counties.

- Contact Person(s) Responsible for Correction
Diann Axford, County Treasurer

**Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004**

**Section II--Financial Statement Findings
(Continued)**

OTHER REPORTABLE CONDITIONS (Continued)

- **Corrective Action Planned**

After researching the above condition, I found that this is a matter that the courts had taken over to do. It is not the responsibility of the treasurer's department. The money that comes into these line-items for Crawford and Kalkaska are debited at the end of the year by a journal entry and applied to the line-item "due from other counties." This reduces the amounts that Crawford and Kalkaska Counties owe to Otsego County, and then they are billed for the balance remaining. It looks like the journal was not done for year end.

- **Anticipated Completion Date**

Will contact person responsible in the court system and see that this is processed.

STATUTORY COMPLIANCE

Our review of procedures for compliance with statutory requirements disclosed the following exceptions:

Emergency Medical Services Board Minutes

Finding 03-06

Condition: The board minutes did not contain certain motions and actions taken by the board. Board approval for disbursements made was not noted in the minutes. The manner in which the minutes were written was not consistent with statutory requirements.

Criteria: The minutes of the board shall include a record of all proceedings of the board to include all resolutions and decisions for all questions presented to the board. (MCL 15.269)

Directive: We direct that the minutes include all actions taken by the board. Further, that the check number sequence and dollar amount for vendor payments should be included in the minutes as approved.

Management Response:

- **Contact Person(s) Responsible for Correction**
Jon Deming, Chief/Manager

**Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004**

**Section II--Financial Statement Findings
(Continued)**

STATUTORY COMPLIANCE (Continued)

- Corrective Action Planned:
Minutes will include all action of the board. A total of bills and check numbers used will be recorded.
- Anticipated Completion Date:
Immediately.

General Checking Account--Old Outstanding Checks

Finding 04-15

Condition: The general checking account currently has outstanding checks that are over one year old.

Criteria: According to MCL 567.234:

“Property held for the owner by a court, state, or other government, governmental subdivision or agency, public corporation, or public authority that remains unclaimed by the owner for more than 1 year after becoming payable or distributable is presumed abandoned.”

According to MCL 567.238

...a person holding property presumed abandoned and subject to the state’s custody as unclaimed property under this act shall be reported to the administrator concerning the property as provided in this section. The report shall include all of the following: The name, if known, social security number, if known, and last known address, if any, of each person appearing from the records of the holder to be the owner of property of the value of \$50.00 or more presumed to be abandoned . . . , the nature and identifying number, if any, or description of the property and the amount appearing from the records to be due. However, items of value under \$50.00 each may be reported in the aggregate . . . the date the property became payable, demandable, or returnable, and the date of the last transaction with the apparent owner with respect to the property . . . Except as otherwise provided in this subsection, the report shall be filed on or before November 1 of each year for the 12-month period ending on the immediately preceding June 30.

MCL 567.240 then states:

“A person who is required to file a report . . . shall at the time of the report pay or deliver to the administrator all abandoned property to be reported . . . or any balance owing if an estimated payment was made . . .”

**Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004**

**Section II--Financial Statement Findings
(Continued)**

STATUTORY COMPLIANCE (Continued)

Directive: We recommend that the old outstanding checks be investigated. Once they become over one year old, we direct the treasurer's office to turn over all unclaimed checks, with a value of \$50 or more, to the State of Michigan. We recommend that all items under \$50 be counted and remitted to the state providing aggregate number of items included. The amounts remitted to the state should be removed from the outstanding check list on the bank reconciliation.

- Contact Person(s) Responsible for Correction
Diann Axford, County Treasurer
- Corrective Action Planned:
We are doing a report on voided checks and teaching staff on procedures so this will be taken care of.
- Anticipated Completion Date
The corrective procedures are already in place.

Inmate Checking Account--Old Outstanding Checks

Finding 04-16

Condition: The inmate checking account currently has outstanding checks that are over one year old.

Criteria: According to MCL 567.234:

“Property held for the owner by a court, state, or other government, governmental subdivision or agency, public corporation, or public authority that remains unclaimed by the owner for more than 1 year after becoming payable or distributable is presumed abandoned.”

According to MCL 567.238

. . . a person holding property presumed abandoned and subject to the state's custody as unclaimed property under this act shall be reported to the administrator concerning the property as provided in this section. The report shall include all of the following: The name, if known, social security number, if known, and last known address, if any, of each person appearing from the records of the holder to be the owner of property of the value of \$50.00 or more presumed to be abandoned . . . , the nature and identifying number, if any, or description of the property and the amount appearing from the records to be due. However, items of value under \$50.00 each may be reported in the aggregate . . . the date the property became payable, demandable, or returnable, and the date of the last transaction with the apparent owner with respect to the property . . . Except as otherwise provided in this subsection, the report shall be filed on or before November 1 of each year for the 12-month period ending on the immediately preceding June 30.

**Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004**

**Section II--Financial Statement Findings
(Continued)**

STATUTORY COMPLIANCE (Continued)

MCL 567.240 then states:

“A person who is required to file a report . . . shall at the time of the report pay or deliver to the administrator all abandoned property to be reported . . . or any balance owing if an estimated payment was made . . .”

Directive: We recommend that the old outstanding checks be investigated. Once they become over one year old, we direct the sheriff’s department to turnover all unclaimed checks, with value of \$50 or more, to the county treasurer; who will submit it along with any other abandoned property to State of Michigan, in accordance with the above statutory requirements. We recommend that all items under \$50 be counted and remitted to the state providing aggregate number of items included. The amounts remitted to the state should be removed from the outstanding check list on the bank reconciliation.

- Contact Person(s) Responsible for Correction
James McBride, County Sheriff
- Corrective Action Planned:
We will contact the county treasurer to perform the process.
- Anticipated Completion Date
December 31, 2005.

Board of Commissioners--Budget Requirements

Finding 04-17

Condition: As indicated in the notes to financial statements, the County of Otsego has not complied with certain provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act. The act requires the board of commissioners to make budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Criteria: Noncompliance with PA 2 of 1968, as amended: Uniform Budgeting and Accounting Act

Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004

Section II--Financial Statement Findings
(Continued)

STATUTORY COMPLIANCE (Continued)

Fiscal year ending December 31, 2004 expenditures were incurred in excess of amounts appropriated in the amended budgets for the activities or functions of the General Fund and special revenue funds are as follows:

	Final Amended Budget	Actual	Variance Positive (Negative)
General Fund			
General Government			
Unshared Court Expenses	\$173,188	\$ 193,407	\$ (20,219)
Friend of the Court	812,556	1,020,500	(207,944)
FOC Medical Support		360	(360)
Probate Court	325,900	330,284	(4,384)
Family Counseling	2,900	5,545	(2,645)
Audit	30,000	39,906	(9,906)
IT Department	20,000	38,539	(18,539)
Equalization	237,729	238,661	(932)
MSU Extension	46,039	68,218	(22,179)
Prosecuting Attorney	457,760	460,215	(2,455)
Public Safety			
Sheriff	813,308	823,421	(10,113)
Motorcycle Safety	37,847	37,999	(152)
Emergency Services	47,158	71,528	(24,370)
Health and Welfare			
District Health	176,248	177,987	(1,739)
Other			
Bonds and Insurance		362,063	(362,063)
Retiree Insurance	143,453	144,112	(659)
Special Revenue			
Park			
Recreational and Cultural	338,573	375,227	(36,654)
Animal Control			
Public Safety		103	(103)
MTEC			
Community and Economic Development		651,939	(651,939)
Otsego Lake Maintenance			
Public Works		31	(31)
Animal Control Forfeited			
Public Safety		10	(10)
Gypsy Moth			
Health and Welfare		17,857	(17,857)
Transfers Out		1,000	(1,000)

**Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004**

**Section II--Financial Statement Findings
(Continued)**

STATUTORY COMPLIANCE (Continued)

	Final Amended Budget	Actual	Variance Positive (Negative)
Special Revenue (Continued)			
Public Improvement			
General Government		18,983	(18,983)
Capital Outlay		194,516	(194,516)
Transfers Out		407,509	(407,509)
Register of Deeds Automation			
General Government		32,160	(32,160)
Budget Stabilization			
Transfers Out		85,000	(85,000)
Equipment			
Public Safety		9,344	(9,344)
Capital Outlay	35,422	141,288	(105,866)
Law Library			
General Government		10,218	(10,218)
Airport			
Public Works	563,353	692,035	(128,682)
Revenue Sharing Reserve			
Transfers Out		247,554	(247,554)
Department of Human Services			
Health and Welfare		276,513	(276,513)
Veterans' Trust			
Health and Welfare		3,082	(3,082)

Directive: The board of commissioners should amend the budget as needed to prevent actual expenditures from exceeding those provided for in the budget as required by Public Act 2 of 1968, as amended.

Management Response:

- Contact Person(s) Responsible for Correction
Denise Koning, County Administrator
- Corrective Action Planned:
The county administrator has the authority, per board motion, to make necessary budget transfers to keep certain budgets from showing a deficit. The administrator will monitor all funds to ensure compliance.
- Anticipated Completion Date:
The corrective procedures are in place.

**Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004**

**Section II--Financial Statement Findings
(Continued)**

STATUTORY COMPLIANCE (Continued)

Deficit Fund Balances/Net Assets

Finding 04-18

Condition: As of December 31, 2004, a deficit existed in the unreserved fund balance (governmental funds) and unreserved net assets (proprietary fund) in the following funds:

	<u>Fund Balance</u>	<u>Net Assets</u>
Special Revenue		
Animal Control	\$ (103)	
Airport	(18,477)	
Equipment Revolving	(9,920)	
Veterans' Trust	(380)	
Capital Project		
Building Authority	(27,165)	
Court Restoration	(7,050)	
Internal Service		
Building and Grounds		\$(130,100)

Criteria: Noncompliance with PA 140 of 1971, as Amended, Failure to File Reports and Deficit Elimination Plans

“For a fiscal year of a unit of local government ending on or after October 1, 1980 or any year thereafter, if a local unit of government ends its fiscal year in a deficit condition, the local unit of government shall formulate and file a financial plan within 90 days after the beginning of the fiscal year to correct this condition. Upon request of a local unit of government the Department of Treasury may assist that local unit in the formulation of the financial plan to correct the deficit condition. The local unit of government shall file the financial plan with the Department of Treasury for evaluation and certification that the plan ensures that the deficit condition is corrected. Upon certification by the Department of Treasury, the local unit of government shall institute the plan. An amount equal to 25% of each payment to a local unit of government entitled to payments under this act may be withheld until requirements of this subsection are met.”

The county failed to formulate and file a deficit elimination plan within 90 days after the beginning of a fiscal year to correct a deficit condition which existed at the end of the previous fiscal year (MCL 141.921(2)). The financial plan is to be filed with the state treasurer.

Directive: We direct the county to file a Deficit Elimination Plan as required by PA 140 of 1971, as amended. If the deficit has been eliminated subsequent to December 31, 2004, the county should still submit a plan and demonstrate that the plan has already been completed with the desired results.

**Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004**

**Section II--Financial Statement Findings
(Continued)**

STATUTORY COMPLIANCE (Continued)

- Contact Person(s) Responsible for Correction
Denise Koning, County Administrator
- Corrective Action Planned:
It was not possible for the county administrator to file this report accurately or timely due to items mentioned in previous comments, along with the previous management responses.
- Anticipated Completion Date
All reports will be filed within 30 days of receiving accurate, audited 2004 figures.

Preparation of the Budget

Condition: The final amended budget for Otsego County had deficit fund balances for the general fund and numerous special revenue funds.

Criteria: Noncompliance with PA 2 of 1968, as amended, the Uniform Budgeting and Accounting Act, MCL 141.435(2) states, "The total estimated expenditures, including an accrued deficit, in the budget shall not exceed the total estimated revenues, including an available unappropriated surplus and the proceeds from bonds or other obligations issued under the fiscal stabilization act or the balance of the principal of these bonds or other obligations."

Directive: We direct the county to comply with the above statutory budgeting requirement and the board should take appropriate action to ensure that all budgets are balanced.

- Contact Person(s) Responsible for Correction
Denise Koning, County Administrator
- Corrective Action Planned:
The administrator and finance department, in conjunction with department heads, will implement and maintain complete and accurate budgets.
- Anticipated Completion Date
The corrective action is already in place.

**Otsego County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004**

Section III--Federal Award Findings and Questioned Costs

Failure to Submit Audit--Noncompliance with OMB Circular A-133

Finding 04-19

Condition: The 2003 audit was not submitted to the Federal oversight agencies administering the federal award programs until after the deadline established by the Office of Management and Budget's Circular A-133.

Criteria: According to the Office of Management and Budget's Circular A-133 and the provisions set forth in the agreements and contracts for Federal awards signed by the county, the Single Audit reporting package and management letter is due within nine months after the county's fiscal year end.

Recommendation: We recommend that the county work to complete and submit its audit to comply with the above timeline.

- Contact Person(s) Responsible for Correction
Denise Koning, County Administrator
- Corrective Action Planned:
The 2003 audit was filed late due to an untimely audit completed by the Road Commission.
- Anticipated Completion Date
Completed.



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

July 29, 2005

County Board of Commissioners
Otsego County Courthouse
225 West Main Street
Gaylord, Michigan 49735

RE: Report on Compliance and on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of Otsego County, Michigan, as of and for the year ended December 31, 2004, and have issued our report thereon dated July 29, 2005. We did not audit the financial statements of the Commission on Aging (special revenue fund type) which represents 1.8 percent and 6.62 percent, respectively, of the assets and revenues of the governmental funds. We did not audit the financial statements of the Road Commission (special revenue discretely presented component unit) which represents 78.12 percent and 63.54 percent, respectively, of the assets and revenues of the component units. These financial statements were audited by other auditors. Our opinion on these financial statements, insofar as it relates to the amounts included for the Commission on Aging and Road Commission, is based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance--As part of obtaining reasonable assurance about whether Otsego County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards; however, we did note other instances of noncompliance described in the accompanying Schedule of Findings and Questioned Costs as items 03-06, 04-15, 04-16, 04-17 and 04-18.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered Otsego County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain

matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Otsego County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 03-01 and 04-1 through 04-14.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being auditing may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe findings 03-01 and 04-01 through 04-13 of the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of the management, the board of commissioners, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

July 29, 2005

County Board of Commissioners
Otsego County Courthouse
225 West Main Street
Gaylord, Michigan 49735

RE: Report on Compliance with Requirements Applicable to Each Major Program and
Internal Control Over Compliance in Accordance With OMB Circular A-133

Dear Commissioners:

Compliance--We have audited the compliance of Otsego County with the types of compliance requirements described in the US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended December 31, 2004. Otsego County's major Federal programs are identified in the summary of auditor's result section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Otsego County's management. Our responsibility is to express an opinion on Otsego County's compliance based on our audit.

Otsego County's financial statements include the operations of the Otsego County Commission on Aging (special revenue fund), which received \$243,639 in Federal awards and was audited by other auditors, the information included in the schedule of Federal awards is based on information provided by other auditors. The Otsego County Road Commission (special revenue component unit), which received and expended \$386,610 in Federal Awards, is not included in the schedule for the year ended December 31, 2004 because it is included in the State's single audit. There were no Federal force account projects that are required to be audited for compliance under the Single Audit Act through the road commission procurement.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements, referred to above, that could have a direct and material effect on a major Federal program.

An audit includes examining, on a test basis, evidence about Otsego County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Otsego County's compliance with those requirements.

In our opinion, except as noted above, Otsego County complied in all material respects with the requirements referred to above that are applicable to each of its major Federal programs for the year ended December 31, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 04-19.

Internal Control Over Compliance--The management of Otsego County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Otsego County's internal control over compliance (with requirements that could have a direct and material effect on a major Federal program) in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of board of commissioners, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division